



# **report of the study group on wages incomes and prices**

**may, 1978**



अध्यक्ष  
CHAIRMAN

संख्या/D.O. No.

भारत सरकार

GOVERNMENT OF INDIA

मजदूरी, आय और कीमतों की समीक्षा समिति  
STUDY GROUP ON WAGES, INCOMES & PRICES

विज्ञान भवन एनेक्सी

Vigyan Bhawan Annex

नई दिल्ली/New Delhi-110001, the May 12, 1978

My dear Minister

I have great pleasure in submitting  
to you the Report of the Study Group which,  
as I mentioned in my letter of May 1, is  
based on unanimous conclusions and  
recommendations.

Yours sincerely,

(S. Bhoothalingam)

Shri H. M. Patel,  
Hon'ble Minister of Finance,  
North Block,  
New Delhi

## CONTENTS

	<b>Page</b>
<b>1. PREFACE</b>	<b>(i)</b>
<b>2. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS</b>	<b>1</b>
<b>3. THE REPORT :</b>	
<b>I. The Objectives</b>	<b>17</b>
<b>II. The Structure of Incomes</b>	<b>24</b>
<b>III. Minimum Wage</b>	<b>30</b>
<b>IV. The Rural Sector</b>	<b>37</b>
<b>V. High Incomes and Top Salaries</b>	<b>43</b>
<b>VI. Wages in the Organised Sector</b>	<b>55</b>
<b>VII. Dearness Allowance</b>	<b>69</b>
<b>VIII. Bonus</b>	<b>77</b>
<b>IX. Prices</b>	<b>82</b>
<b>X. Miscellaneous</b>	<b>91</b>
<b>XI. Implementation</b>	<b>96</b>
<b>4. TABLES</b>	<b>100</b>
<b>5. APPENDICES:</b>	
<b>A. Composition of the Study Group         and terms of reference</b>	<b>132</b>
<b>B. List of parties addressed and         those who responded</b>	<b>135</b>
<b>C. Detailed list of recommendations</b>	<b>140</b>

## P R E F A C E

0.1 The scope of the study envisaged in our terms of reference\* is very wide. Ordinarily a study of this complex nature, if it is to be carried out in sufficient depth, might take upto a couple of years. We were asked to complete our work and make recommendations within six months. In such studies the outcome is determined by various inputs of available material and human effort; the time available is one such input. We have, therefore, interpreted our terms of reference to mean that what is expected of us is to complete as much of the task assigned as is possible within six months. We have tried to do just that.

0.2 Obviously, it was not possible to organise the gathering of fresh information. The Group had, therefore, to make do with whatever material could be readily gathered from published or other sources, the gaps being filled in as best as we could.

0.3 The subject matter of the study being wide and complex, and the time being limited, it was thought that issue of a detailed questionnaire on the conventional pattern would not serve much useful purpose. Nor was it possible to visit various centres and have discussions in the customary manner. We nonetheless addressed several parties such as State Governments, larger public sector undertakings, employees' and employers' organisations and trade unions at the all India level, eminent economists, many universities and research institutions, etc. inviting their views on the terms of reference of the Study Group. About 20 per cent of the parties addressed sent their replies. Besides, some individuals and organisations on their own accord communicated their views to the Study Group. Some of these related to demands of particular sections of employees regarding their pay scales and service conditions and were not within the scope of our work. Most State Governments, Universities and the larger trade union organisations did not offer their views. A list of the parties addressed and those who responded will be offer in Appendix B.

4 The Study Group also had the benefit of informal discussions with certain heads of departments, economists and other knowledgeable persons with a view to testing out some of the ideas developed. We exchanged views, among others, with the Deputy Chairman and Member of the Planning Commission, and with senior officials of the Finance, Labour, Industry, Railways, Defence and Communication Ministries.

0.5 We are grateful to all those who have given us the benefit of their views and cooperation in our work. We also place on record our thanks to all our research and administrative staff without whose dedication and sustained hard work it would not have been possible to complete our Report in time.

---

\*Appendix A

0.6 The Report that follows attempts no more than an outline of what we regard as the essential features and ingredients of an integrated policy on incomes and prices. Admittedly, the effective planning and implementation of such a policy will call for considerable consultations with all concerned and the evolution of appropriate machineries for implementation. All this will necessarily take time. But we think a beginning can and should be made.

0.7 For the sake of convenience, we begin the Report with a summary of our conclusions and recommendations. One of our Members, Shri Arvind Buch, wishes to make it clear that while he agrees entirely with the summary of conclusions and recommendations, he has reservations on several points on the detailed arguments leading to the conclusions as given in the Report.

( S. Bhoothalingam )



( Dharm Narain )

( Arvind Buch )

( Hiten Bhaya )

( Samuel Paul )

( A. M. Khusro )

( G. C. Katech )

**SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS  
OF THE REPORT OF THE STUDY GROUP ON WAGES,  
INCOMES & PRICES UNDER THE CHAIRMANSHIP OF  
SHRI S. BHOOThALINGAM**

**Minimum Wage (Chapter III)**

The real minimum wage can only be the absolute national minimum, irrespective of sectors, regions or States, below which no employment would be permitted.

2. In determining such a national minimum wage several considerations have to be kept in view. For instance, it has to be consistent with factors like (1) the per capita national income adjusted after applying the participation rate, (2) average national income per consumption unit, and (3) per capita rural consumption expenditure. It cannot also deviate too much from prevalent earnings in the small scale sector. Above all, its impact must not be such as to inhibit generation of employment.

3. Taking all relevant considerations into account, the national minimum wage to be aimed at should be Rs. 150 per month at current prices. Efforts should be made towards achieving this goal as soon as possible, at any rate within a period of about seven years. But immediately it may not be practicable to adopt this figure without seriously jeopardising employment and dislocating the tiny and small scale sector. To begin with, therefore, we recommend that the national minimum wage below which no employment will be permitted be fixed at Rs. four per day of eight hours unskilled work, inclusive of any part payment in kind where customary; or at a monthly rate of not less than Rs. 100. The very announcement of this policy and its wide dissemination will itself have tonic effect and make workers conscious of their right.

4. We further recommend that the quantum of the national minimum wage should be revised every two years till the recommended level of Rs. 150 per month (at 1978 prices) is reached; thereafter, it should be mandatory to revise the minimum wage every three years in relation to the trend increase in per capita national income.

5. The proposed minimum wage will be applicable throughout the country for unskilled work for every adult of 18 years or above, irrespective of sex. The present statutory minimum wages, wherever they are lower than the proposed national minimum, will be brought up to this level. It will not adversely affect any category of employees already in receipt of higher minimum wage. State Governments will continue to have the freedom to fix higher minimum wages for any categories of employment under the Minimum Wages Act.

6. Employment with a reasonably stable employer-employee relationship is an essential condition for the application of the minimum wage. This will therefore not apply to work given out to be done in households, as there will then be no clear employer-employee relationship.

7. We consider that in respect of agricultural sector a desirable minimum rural household income would be a more meaningful concept because of the irregular and seasonal nature of employment and unstable and varied sources of income.

#### The Rural Sector (Chapter IV)

8. The minimum desirable rural household income to be aimed at should be such as to enable the bottom 30 per cent to come up roughly to the level of the next higher decile group. We suggest adoption of Rs. 1800 per annum for the present for planning purposes. Policy measures should be directed towards creating conditions in which the households of those who work part time or sporadically, as well as landless labourers and marginal farmers, are enabled to earn this minimum within a period of seven years.

9. The Draft Sixth Plan has suggested various measures for the eradication of poverty and unemployment in the rural sector which include redistribution of land surplus, implementation of tenancy reforms, organising the poor masses and creation of additional jobs mainly in the agriculture and allied sectors and in the small scale and cottage industries.

10. It is necessary to support and accelerate the employment effects of the programmes contained in the Draft Plan by several types of parallel action. Such action should reach the very poor, viz., the landless labour or those with small bits of land, and those without any worthwhile assets. Our policy should thus aim at (a) improving the productivity and thereby increasing the return from small holdings, and (b) increasing the opportunities for work and ensuring that such work brings in better returns.

11. The first objective is likely to be served by the Plan programmes designed to improve the productivity of marginal farmers and making available

the necessary inputs. In this connection the instrument of contractual guaranteed price can be deployed to induce a shift in the product mix of small and marginal farmers in favour of crops which are at once labour intensive and high value crops. This would call for (a) effective provision of credit for those farmers essentially through cooperative banks and societies; (b) assured provision of foodgrain supplies at prices which may induce them to shift a part of their holdings to high value crops; and (c) assured arrangements for purchase at guaranteed price so that farmers are protected against the uncertainties of marketing and price fluctuations.

12. The scheme may start with a few selected commodities like potatoes, onions and dry chillies, and with an assurance of a price for those small and marginal farmers who may be willing to participate. Details of the scheme can be worked out to keep leakage and abuse to the minimum. The price to be guaranteed may be an approximation to the trend value of the price of the commodity by taking an average of the post-harvest prices in the previous five years.

13. We recognise the role of local level institutions like cooperatives, Small Farmers Development Agencies, etc., in the planning and operation of such schemes. The work of collection, transportation, storage and disposal could be done by all-India agencies like the Food Corporation of India or NAFED. As experience is gained and success achieved, the range of commodities can be enlarged over time.

14. As regards creation of employment opportunities, wider opportunities for employment would come through the implementation of Plan programmes, but this would take considerable time and their economic effects may not be felt in the short run. Therefore, these efforts need to be strengthened by directing employment programmes to areas where other developmental activities are by themselves now insufficient. Such a scheme of coordinated employment should satisfy the following conditions: (i) the daily wage offered should be, for unskilled labour, not less than the national minimum at daily rates; (ii) those who offer their work should be required to work continuously at least for a week; (iii) they should be required to do whatever they are asked to do, although efforts should be made to give them the kind of work they know; (iv) when there is no work, or not enough work, they should still be paid, but to prevent abuse they should be required to remain in attendance; (v) after the week, the worker should be free to leave whenever he likes; (vi) administrative effort should be directed to the preparation and development of such schemes; (vii) every scheme should have provision for the required minimum of material inputs; and (viii) there should be no limitation of number on grounds of finance or lack of schemes.



15. While the orientation of the employment programme will be towards development work, non-seasonal jobs as well as jobs according to the needs of different locations may also be included. These may include spinning and weaving, poultry, milk and milk products, cattle breeding, etc.

16. We believe that if conditions such as we have indicated are incorporated in the scheme, there will be no uncontrolled flood of offers for employment.

#### High Incomes and Top Salaries (Chapter V)

17. We have not proposed any freeze in wages. On the contrary, we believe that wages should gradually increase by obtaining an appropriate share in the growth of gross national product and productivity. Such a growth should take place in a smooth and orderly fashion and not as a result of continuing tension and trials of strength. This should therefore be planned for, and such planning would involve a certain measure of restraint. For such restraint to be generally accepted, we think it is necessary that those earning higher incomes should also be subjected to restraint.

18. One such restraint should be on the distribution of dividends. Obviously, the limitation should not be expressed in terms of a percentage of paid up share capital. The amount distributed as dividend should be limited to a percentage of equity capital and reserves which together represent the investment of the shareholder. This percentage may be fixed at two or three per cent below the rate of earning regarded as necessary to attract enough investment to secure the growth of the industry. Thus, if 12 per cent of capital and reserves is regarded as an appropriate return for the cement industry, the distribution as dividend should be limited to eight or nine per cent. This would incidentally strengthen the capacity of the industry to grow through the use of internal resources.

19. Salaries of government servants and those employed in the public sector are already subject to considerable restraint. The ratio between the post-tax salary income of the lowest and the highest in these sectors is now around 1 : 9. However, if perquisites of government servants were taken into account, this range might widen slightly. On the other hand, higher salaries and perquisites accrue generally to older persons with greater length of service. When comparisons are made between the more experienced persons in the lowest and the highest categories, it will be seen that the range is considerably narrowed. Thus, the differential is already a little narrower than what has been generally envisaged as the goal ten years hence. The question whether there should not be some upward revision of salaries in those ranges, in order to continue to attract persons of the requisite calibre to these posts, needs examination. We recommend that this problem may be referred to the National Pay Commission, the early appointment of which we recommend.

20. In the private sector, however, the differentials are wider mainly because, unlike the government sector, higher salaries have also been revised upwards from time to time following inflation. The differentials in after-tax emoluments vary from industry to industry, and sometimes go up to 1 : 16. Risks and uncertainties in entrepreneurial management being greater, and managerial talent of the requisite calibre being still relatively scarce, the differentials can be higher than in the government sector or the public sector. They still need to be narrowed. High salaries in the private sector are often supplemented by commissions and by tax free or near tax free benefits, which encourage and make possible affluent and even ostentatious ways of living. Further, generous retirement benefits reduce the need for current savings permitting thereby a higher level of consumption during service and after retirement. We think, therefore, the total value of perquisites must be fully taken into account in determining the appropriate level of compensation. These should not normally exceed 25 per cent of basic pay. Further, the method of valuation of perquisites for tax purposes should be uniform for all sectors. Normally, there should also be a limit to the total of salary and commission and this limit should apply not only to Directors but others as well. In order to prevent disruption and emergence of new abuses, the limit should not represent too drastic a change. Taking current circumstances into account, we think that Rs. 6000 per month for all new contracts would be a suitable limit for the next five years. Provision may have to be made for certain exceptional cases of high or rare skills such as oil exploration, haute cuisine, etc. Some special arrangements will have to be made for this.

21. We also consider that payment of commission as a mode of remuneration is an outdated concept and a hangover from the old managing agency system. It should, therefore, be phased out within the next three to five years. Simultaneously, a suitable system may be evolved for incentive payments for exceptional performance in the productive sector — both private and public — coupled with penalties for negative or unsuccessful performance.

22. We also think that individual fixation of salaries by government or other external authorities should be avoided because of the complex and varying situations in business and industry. In particular, differentials inter se among the higher paid employees of the private sector should be left to be settled through the normal process of negotiated contracts by the managements, subject only to the overall limits prescribed.

23. The only method of trying to enforce a ceiling on incomes is by 100 per cent personal income-tax on the excess over the ceiling. However, recent experience has shown that this does not work. Agricultural incomes continue to be totally exempt from all personal taxation; many other incomes, though legally subject to tax, are not brought within the tax net. Moreover, the threat of a limit on incomes will be a disincentive to work and enterprise. In order to avoid this dilemma, at least in part, we recommend imposing a ceiling not on

income but on the two main purposes for which incomes are sought, namely, consumption and private investment. This can be achieved by imposing a high penalty over a certain limit of total income from all sources including agriculture. An individual may be allowed to opt out of paying such a penalty by depositing the whole of the excess income with the government into a special account. This special account will bear interest at a rate to be determined by government from time to time. Government will have use of these funds, but they will remain the property of the individual and will pass on to his legal heirs after his death. The individual will also have the freedom to withdraw any desired amount at any time, but the amount so withdrawn would be added to that year's income and taxed. Provision may have to be made for withdrawing from the fund for certain approved purposes, such as investment in own business or other desired lines. But these can be worked out after some experience is gained.

24. An alternative to depositing the excess income with the government into a special account will be to have the income earners channelise the excess income into approved forms of saving which may be prescribed by government from time to time. Here again, whenever such savings are withdrawn, they would be treated as part of the taxable income of that year.

25. The advantage of such a scheme is that it would not erode the incentive for work and enterprise to the same degree as personal taxation. It will also solve the difficult problem of high incomes which are fluctuating or are of limited duration.

26. The alternative is to have a ceiling on incomes and impose penal marginal tax rates without any facility for deduction of savings. As both these can be regarded as dysfunctional in terms of their adverse impact on incentives and savings, it would be better to give the option to high income earners to accept much steeper tax rates than those prevailing at present or escape them by stepping up their savings and reducing current consumption. The resultant savings must however be channelised into approved forms which may aid public investment eventually.

27. One of our Members Shri Arvind Buch feels that while the measures recommended may assist to a limited extent in dealing with the question of wide disparities between the lowest and the highest income, these do not go far enough. He has, therefore, suggested several additional measures which are detailed in para 5.41 of the Report.

#### Wages in the Organised Sector (Chapter VI)

28. The determination of a homogeneous national wage structure is very difficult. We are not beginning with a clean slate and the burden of history is with us. Disparities, anomalies and irrationalities exist and have come to be

regarded as 'rights'. Further, there is no reasonable method of determining what should be the absolute level of wage for each category of workers and what is a right differential between one category of workers and another.

29. Even if a national wage structure is determined, which is doubtful, or the historically determined structure accepted, which is improbable, several adjustments in wages or earnings are required from time to time. These are, for instance:

- (a) A periodic increment in earnings which is merely related to time, and which has become part of our culture so to say.
- (b) Some protection of earnings against changes in the value of money.
- (c) A correction for changes in the productivity of workers which may take various shapes.
- (d) A correction in the relative wages of one set of workers, with certain degree of skill and certain onerousness of work, relative to the much higher wage of another set of similar workers with the same degree of skill and onerousness of work.
- (e) A correction in the relative wages of one set of workers with certain degrees of skill and onerousness of work, relative to a much higher wage of another set of dissimilar workers with different degrees of skill and onerousness of work.
- (f) A set of corrections to reduce the disparities across industries/sectors and within industries/sectors.

30. We have tried to provide appropriate guidelines and principles (a) to get such corrections and adjustments within the framework of collective bargaining, (b) to reduce disparities and (c) to raise gradually the areas of unduly depressed wages. We only suggest them as the first steps.

31. Wage disparities exist between the Central and State Governments and among the State Governments themselves. Standardisation is not practicable, but some harmonisation is necessary in respect of certain common categories. The minimum wage determined by the Third Pay Commission may be commended to States for adoption within about five years. Model scales for certain common categories (identified by the Sixth Finance Commission) may be worked out by a National Pay Commission which should be appointed soon in consultation with States.

32. The problem of quasi-government and municipal employees is more complex and should be left to the States themselves to tackle.

33. Wage disparities exist in public sector undertakings vis-a-vis Government departmental undertakings engaged on similar work and among public sector enterprises themselves. The suggestion for standardised pay scales for similar public sector and departmental undertakings has much merit. But it may not be found practicable as it impinges on the process of collective bargaining. We therefore recommend the appointment of a Pay Committee to go into the emoluments and service conditions of government industrial employees after comparing them in all respects with corresponding employees in the public and private sectors.

34. In the organised private sector, a standardised pay structure is not practicable in our conditions. There is no practicable method except the process of collective bargaining to determine wages and relativities in this sector from time to time. But to prevent future distortions and work towards the long-term objective of rationalisation, collective bargaining should be subject to certain broad guidelines. Some of the suggested parameters which will equally apply to the public sector can be as follows:

- 1) The spread between the highest and the lowest wages in a unit should normally be 4-5 times the lowest wage.
- 2) Similar payment for broadly similar categories of workers in leading industries in the same region.
- 3) Scarce skills will merit higher differentials, but non-wage benefits should be taken into account when determining differentials.
- 4) In future wage settlements, units having relatively low wages should be enabled to come up faster than those already in receipt of wages far above the majority of enterprises.

35. We have recommended a universally applicable system of dearness allowance which would compensate for increases in cost of living of the basic minimum needs for consumption. This element, therefore, should have ordinarily no influence in wage revisions in the future which should be essentially linked to increases in productivity. In sectors where the measurement of productivity is difficult or impossible, such as government services, the increase in national productivity should be taken into account. Where productivity in a sector is less difficult to measure, as in most of the industrial sector, wage increases should be governed by the overall rate of growth in productivity disaggregated by suitable groups of industries, on the basis of homogeneity or otherwise, to be recommended by

the proposed Bureau of Incomes & Prices. This guideline, being an average for the industry as a whole, cannot be applied rigidly but some flexibility has to be provided by the permissible rate being between the mean deviation limits above and below the average rate of productivity growth.

36. The guideline will apply to the increase in the total wage bill of a unit. However, increases already accrued due to the existence of incremental scales since the last settlement will have to be taken into account. The spread of benefits among various groups and levels, and adjustment of wage scales, etc., will be determined entirely by collective bargaining. All wage agreements will have effect from a prospective date in future.

37. In order that existing disparities are not perpetuated or further widened, there has to be a further guideline for "high-wage islands" allowing for a lower rate of growth than elsewhere in the industry. This may mean that, in some cases revised wage scales may become necessary, excesses being treated as personal pay for existing employees.

38. Overtime payment should be carefully adjusted to needs and should not be allowed to become systematic.

39. All wage settlements through collective bargaining will be operative for 4-5 years. Similarly, Pay Commission/Committees for pay revisions of government employees should be appointed every five years or so.

40. A permanent non-statutory body called the "Bureau of Incomes and Prices" may be set up to undertake continuous review of relevant data and to determine each year the guidelines for the industry or for groups of industries, within which collective bargaining will operate. Its recommended guidelines, on acceptance by Government, will regulate all wage settlements, as well as Wage Boards awards, etc. There will also be a higher policy-making Council consisting of 30-40 members representing concerned interests including trade unions, employers and State Governments.

41. If individual units or industries, whether in public or private sector, are unable to reach wage settlements within the norms laid down by the Bureau, the matter should be referred to an independent appellate body whose award would be legally binding.

42. One of our Members Shri Arvind Buch has made several further suggestions which have been reproduced in para 6.44 of the Report.

### Dearness Allowance (Chapter VII)

43. The existing dearness allowance arrangements vary considerably with reference to the linkage base, mechanism of linkage, degree of linkage, periodicity of revision and the degree of neutralisation both inter-sectorally as well as intra-sectorally. This heterogeneity has resulted in distortions, anomalies and narrowing of differentials in all sectors. In certain sectors this has been aggravated by linking dearness allowance to wages. There is, therefore, need for a single national corrective formula to compensate for the rise in cost of the essential consumption basket.

44. It would be appropriate to link future dearness allowance increases to cost of living on a uniform basis. In the absence of better alternative, the index to be used may continue to be All-India Average Consumer Price Index for Industrial Workers, which is widely used. Since there is considerable divergence in the use of the Consumer Price Index itself, the latest available series should be used. With this proviso, therefore, there would be no objection to the use of the all-India or a regional index. The switch-over to the latest series could be made at the next wage revision. In cases where the Index for Urban Non-manual Employees is in use, it may continue to be used for regulating dearness allowance unless the employees and the employers decide by mutual agreement to switch over to the All India Consumer Price Index for Industrial Workers.


45. The periodicity of dearness allowance revision should be on a quarterly basis for all sectors with reference to the average of the preceding quarter.

46. The two main systems of dearness allowance at present in use are based on either a wage-linked slab system or a value per Index point system. The "per point" system is preferred being more logical, simple, with ease of universal understanding and application. It has also the merit of delinking dearness allowance from wages. It has an in-built progressive edge and does not unduly affect existing relativities in wage structure. We recommend adoption of the per point formula uniformly for future revisions, the value per point being around Rs. 1.30. This is already prevalent in about two-third of the public sector enterprises as also in cement and steel industries. The per point formula with varying point values is also in use in a number of other industries like cotton textiles, jute, engineering (West Bengal) and sugar, which may continue till the next wage revision. This formula would ensure full neutralisation at the lower levels. Since D. A. under this system is not related to salary, it will be admissible to all irrespective of salary drawn. In no case will there be a reduction in the dearness allowance at present being drawn.

**Bonus** (Chapter VIII)

47. Logically, bonus related to profit, of the kind which has prevailed in India for a long time now, is suitable only in industries producing for the market in reasonably competitive conditions. It is not suitable in the case of organised activities, industrial or other, where the profit motive does not operate at all or where the profits are induced, influenced or otherwise affected by public policy and largely used for the community welfare. Thus, it is unsuitable in government services and similar activities, including the Railways, Posts and Telegraphs, and public utilities, financial and other institutions.

48. On this reasoning, it would not be desirable to extend the system of bonus related to profit to new areas. Further, where the bonus system prevails in unsuitable areas, it should be phased out, if necessary by replacing it with other payments related to more suitable measures of performance.



49. In Railways, Posts and Telegraphs, and Ordnance Factories, etc. fairly large numbers are engaged in activities closely similar to those in industry in the private and public sectors. They are better off in some ways and worse off in others. If, after a comparative study of their emoluments and non-wage benefits, it is found that their real wages are clearly out of line with similar workers in the private and public sectors, corrections must be made through an appropriate revision of the structure and rates of remuneration, and/or suitable incentive payments. We have recommended the appointment of a Pay Committee to undertake this study.

50. Even in the industrial sector, both private and public, bonus related to the profits of individual undertakings tends to perpetuate and accentuate disparities in the earnings of workers who do the same work or put in the same effort. It tends to create tensions between workers themselves, between government and workers, between managements and workers and even between managements. In the long run, it would be desirable to replace it by a system which would enable labour to get a fair share of the benefits of productivity without causing such distortions. Meanwhile, it has to be recognised that the bonus system has become a part of the industrial way of life in India. It will not be practicable to give it up until the economy reaches a higher level of productivity and well-being. Until it is replaced by general agreement, we recommend the continuance of the existing system.



51. Government of India may initiate talks with trade unions and managements paying bonus under the Payment of Bonus Act to replace it by long-term benefits like retirement pensions to all the categories of employees, and some scheme of unemployment relief to those who have once been employed and who have become temporarily unemployed due to closures of firms and factories, mines and plantations, etc. Under this scheme low-paid workers may also be exempted from payment of subscriptions under the Employees' State Insurance Act. Wherever bonus is not paid such benefits may also be extended provided national consensus of converting bonus into the above-mentioned long-term social security measures is arrived at through tripartite dialogue.

52. It would also be desirable, at that stage, to provide that a portion of the allocable surplus in high profit industries should be diverted to financing schemes for rural employment recommended elsewhere in this Report.

53. We also recommend that discussions for a gradual change-over towards the new system may be initiated early. There are several choices available and further thought and discussion may indicate even better methods. One such choice is outlined in the Report. Further consideration of this may be the first step in the process of change.

#### Prices (Chapter IX)

54. The main thrust of our economic policy has necessarily to be anti-inflationary and towards maintenance of reasonable price stability. Price policy has also to be integrated with policies relating to incomes and wages and thus stabilisation of the cost of living has to be one of its basic objectives. Price stability does not however mean a policy of price freeze. On an average whoseale prices may move upto 213 per cent per annum and within this the relative prices may also go up or down. Such a movement is warranted by the need to direct investment, production and distribution patterns on desired lines.

55. The Agricultural price policy should lend support to the efforts to increase overall agricultural production, and to induce changes in the cropping pattern in accordance with changes in the composition of demand, besides ensuring that the rise in prices associated with periodic shortages does not push basic necessities out of the reach of the common man. In order to benefit the small and marginal farmers, encouragement should be given for the production of selected cash crops with a labour intensive bias. Other measures suggested are multiple points of procurement in order to minimise the role of middlemen and simplifying bureaucratic organisation and procedures. The village level organisation will have to be reorganised to ensure that the benefit of concessional inputs passes to the small and marginal farmers, and not to the richer ones.

Efforts may also be made to reduce the costs of procurement, storage, transportation and distribution of foodgrains.

56. We are recommending a wide network of public distribution system covering the essential goods. Such a scheme should be strengthened by maintenance of adequate buffer stocks and proper distribution, planning and imports whenever necessary. For the distribution of mass consumption goods generally a variety of outlets should be organised and encouraged. These should include consumer cooperative societies, fair price chain stores under the auspices of public authorities and the use, where suitable, of existing outlets such as petrol stations, post offices, licensed self-employed vendors, etc. The benefit of subsidising the items covered by the distribution system should largely flow to the lower income groups. In this connection, an in-depth study should be undertaken of the incidence of indirect taxes on the prices of essential goods and the inputs that go into their production.

57. As regards intermediate and capital goods, price controls and the system of administered pricing will work only in respect of a few homogeneous products like steel and cement. Machinery, plant and equipment and their components often vary in their specifications, quality, etc., and direct control over pricing may be difficult to administer. Thus the answer lies in increasing the competitiveness of the capital and intermediate goods and using the import mechanism to augment supply and ensuring that the domestic prices are not permitted to exceed international prices except by a modest percentage. The protection provided to indigenous industries should be reviewed periodically and import duties wherever necessary may be reduced in a phased manner.

58. Other strategies that may be suggested are : (i) The system of dual pricing could be operated selectively in the case of commodities afflicted with chronic or recurring shortages. In a longer term context, where the production of the commodities concerned is subject to sharp fluctuations, the successful working of the system pre-supposes a stocking policy on the part of the government as an accompaniment of the public distribution system.

(ii) In view of the comfortable foreign exchange situation and in order to increase competitiveness in the manufacturing sector, we suggest a uniform import duty of about 20 per cent, particularly on capital goods and intermediates in short supply. Beyond this limit, a specific justification may be required. The policy of banning the export of essential consumer goods has merit during period of severe shortages.

(iii) There is a need to review the system of price controls and subsidies. While the newly set up Dagli Committee would review the present arrangements, the conditions call for setting up of a permanent machinery to examine

and monitor the behaviour of prices and to suggest suitable changes in the prices of agricultural products as well as raw materials and manufactured items on a continuing basis.

(iv) Steps should be taken to encourage and foster the consumer movement. Although other interests are often represented in bodies concerned with pricing and distribution, consumer interests have not been adequately represented. We recommend that this lacuna should be expeditiously filled in by giving adequate representation to consumer interests in the appropriate bodies.

### Miscellaneous (Chapter X)

59. The need for social security benefits in all sectors as an adjunct of an income policy must be recognised. A long term objective would be to work towards extending the pension system to all wage and salary earners. For this funds could be drawn from contributions paid by the employers and employees in suitable proportions.

60. There is equal need for devising some social security measures on a contributory basis for the self-employed sector which forms about 62 per cent of the working population. These will include artisans, small shop-keepers and even marginal farmers.

61. Old age pension has been introduced in certain States, but the rates and the criteria for eligibility differ. A suitable model should be evolved and accepted in principle for adoption all over the country in due course.

62. Pensioners are particularly vulnerable to increases in the cost of living. In our view, the minimum pension of wage and salary earners should in no case be less than the national minimum wage we have proposed in Chapter III.

63. The level of pensions of the middle and lower level government servants is low. If these cannot be raised, at least the pensioners should be paid dearness allowance on the same basis as serving employees. In addition, schemes like the Army Group Insurance Scheme may be introduced to enable the pensioners to augment their post-retirement incomes.

64. Similarly, the Extra Departmental Employees in the P&T Department would need to be protected against price rise to the same extent as others working for government.

65. Housing inadequacy in India has both quantitative and qualitative dimensions. Quantitatively the acute backlog in housing is on the increase from year to year as the rate of construction has not kept pace with the growth of population.

At present, employees have to pay exorbitant rents even for small tenements, particularly in large cities. The problem really is one of national shortage of housing. It has been estimated that an investment of Rs. 2790 crores per year will be required for the next 20 years to make up the shortage.

66. In the context of incomes policy, a major area of concern is housing in view of the considerable cost involved to the employee. In this regard, we suggest that a beginning be made by formulating expanded ownership housing schemes, increased public financing for such schemes, facilities for transfer and mortgage of houses and suitable tax incentives to encourage individuals to invest in housing. A scheme may also be worked out for allotment of houses constructed by government and semi-government bodies to members of Provident Funds against their long-term accumulations.

### Implementation (Chapter XI)

67. Many of our suggestions and recommendations can be implemented by executive orders while others require legislative action or institutional mechanisms.

68. The practice in other countries which have tried to implement incomes-prices policy has not been uniform. In our democratic set-up, implementation has to be a combination of voluntary acceptance through consensus and statutory backing.

69. We, therefore, recommend a process of consultation and discussion leading to a broad consensus for the main outlines of the policy. This would entail consultations with trade unions, employers' representatives, State Governments and consumer interests as well as representatives of groups like small farmers, workers in the non-organised sector and the self-employed. We expect that such inter-action will in due course create the necessary environment for mutual adjustments and constructive cooperation.

70. By way of illustrations, we have indicated the more important policy measures for which legislative changes may be required. The particular laws effected by our recommendations and the nature of changes required will have to be examined in detail by legal experts.

71. As the main instrument for implementation of policies, we envisage a permanent non-statutory body designated as the Bureau of Incomes and Prices, composed of senior economists and experts in labour, management, etc. The Bureau may function under the Ministry of Finance with a fair degree of autonomy. It would recommend guidelines which, on acceptance by Government, will

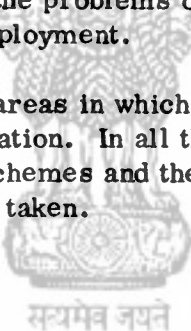
regulate all wage settlements. It will also coordinate collection of data and undertake continuous monitoring of price trends. The detailed functions to be entrusted to the proposed Bureau have been mentioned in the Report.

72. The Bureau will be guided by a coordinating inter-Ministerial group of Secretaries. The broad policy goals to be followed would be formulated by a higher policy making Council of 30-40 members giving wide-based representations to concerned interests including trade unions, employers, State Governments, agriculture and consumers.

73. As independent appellate body with all-India jurisdiction may also be set up to deal with cases where there is failure of collective bargaining to reach settlements within the Bureau's guidelines.

74. We have also recommended the appointment of (a) a National Pay Commission for harmonising the pay structures of the Central and State Governments; (b) a Pay Committee to examine the pay structure of industrial employees of the Railways, P&T, Defence Production, and other departmental undertakings; and (c) a Pension Commission to look into the problems of pensioners and evolve a suitable pension policy for all sectors of employment.

75. We have indicated several areas in which for want of time we have been unable to undertake detailed examination. In all these cases, further studies will be necessary to work out detailed schemes and their financial and other implications before policy decisions can be taken.



## Chapter I

### THE OBJECTIVES

1.1 The title given to our Study Group - Wages, Incomes and Prices is highly convenient for abbreviation (W.I.P). But it is not quite so convenient or sufficient to bring out the relationships among the three in the totality of continually evolving economic policy. For example, wages, as ordinarily understood, are only a part of incomes, and compared to more developed or affluent countries, a much smaller part of total national income. No doubt, wages relate to a section of society which, despite being numerically smaller, is of some special importance to the growth and development of the economy. The processes of wage determination and change in a large segment of self-employed, and another large segment of under-employed have, in the course of time, led to disparities and distortions which in turn have generated various types of pressures. Problems relating to wages in the organised sector, therefore, tend to attract rather pointed attention. Nonetheless, the problems relating to other types of income, particularly those of the very large number of self-employed and under-self-employed, deserve no less attention. Wage policies are rightly to be looked upon as a part, though a very important part, of wider policies relating to the generation, distribution and use of all types of income.

1.2 At first sight, one might wonder why prices have been brought in at all. Incomes policy, in its wider meaning, would automatically have embraced all the determinants of income in its various facets — generation, distribution and use. In the same way, one can equally claim that prices or price policy, again taken in its wider meaning, would automatically have included all the effects of prices or price policies, which include allocation of resources as well as determination of all incomes in the last resort. In other words, if prices are taken to include, as they must, the prices of the factors of production, the economic forces or policies which govern prices automatically determine incomes as well.

1.3 But in human terms, incomes have a more concrete meaning and content. The prices, for the various factors of production, are in fact paid to human beings, whether as individuals or as members of various associations and entities (including the largest of them all, the State). From a concrete point of view, it is the total income from all sources which is of greatest relevance to the human individual, its origins from the various sources being of lesser significance.

1.4 Incomes policy, as generally understood in the Western countries in which they have been tried out or practised in varying degrees, has usually concentrated on the short-term regulation of income increases as one of the main methods of controlling inflation. As wages constitute the bulk of incomes, incomes policy in those countries has tended to be equated, in the ordinary man's view, with restraint of wage increases in order to prevent inflation. Even this simple statement would serve to show that in the Indian context, this role is relatively much less important, for the very simple reason that wages constitute in India only a relatively small portion of total incomes. Historically also, the increase of money wages has played

only a small part as a factor causing inflation. The main causes of inflation have to be sought for elsewhere and, for that reason, also the main remedies for inflation. Incomes policy in India, therefore, cannot connote any special accent on wage restraints.

1.5 What then should be the main objective of this policy in the conditions prevailing in India? A short crisp answer will be insufficient and cannot give quite the right perspective. But with this warning, one can say that incomes policy in India has real relevance only in the sense of a consciously integrated set of economic policies designed to increase national income through appropriate economic development, and to bring about a more equitable distribution of the national income but in ways consistent with continued growth. There is a large body of opinion which holds that the ways through which economic growth has been achieved — insufficient as it might be in relation to needs — have failed to bring about better distribution. Equally, there is concern that other policies, with the main accent on more egalitarian distribution, might come in the way of growth itself. In societies which have already attained a certain measure of affluence, redistributive policies can be envisaged with less uneasiness, but where, as in India, the size of the national cake is very small, the accent has to be evenly balanced between growth and better distribution. The cake has to become larger if all are to get a better slice. But as human beings are simultaneously the instruments of economic growth as well as the participants of its benefits, situations may arise when their role as participants has to be strengthened even for the purpose of enhancing their capacity as instruments of growth. This important aspect has to be borne in mind while holding the balance between growth and distribution.

1.6 Even so, the process of change must come about in the main through guiding distribution of the increases in national income rather than by wide-spread or violent disturbances of patterns which have emerged, rightly or wrongly, through the inter-play of social and economic forces over time.

### The economic scene

1.7 In order to give some concrete content to this approach, it is first necessary to take a bird's eye view of the existing economic framework. The national income rose by 16.7 per cent at constant prices over the last seven years (1970-71 to 1976-77), but owing to increase of population, the corresponding increase in per capita income has been only three per cent. The per capita national income at current prices is now Rs. 1049\*. The bulk of the G.N.P. originates from agriculture, which continues to be the dominant sector of the economy both from the point of view of the number of people it sustains as well as its contribution to the national product. Increases in agricultural productivity have still not been quite commensurate with our needs. Agriculture, in spite of impressive advance in certain sectors, is still relatively poor, still subject to the vagaries of the weather, and incapable, with existing techniques, of adequately sustaining the vast mass of people who depend on it. The extent of land which can be brought under cultivation has nearly reached

\* Central Statistical Organisation: Quick Estimates 1976-77

its limit. More "land" can only be created through the injection of very heavy doses of capital. The distribution of this land among owners and cultivators is, despite laws regarding ceilings on holdings, extremely uneven. According to the latest Agricultural Census, that of 1970-71, the number of operational holdings of less than one hectare (called marginal holding) was 35.68 million which is a little more than half the total number of 70.49 million operational holdings. Yet the former embraced only nine per cent of the total area under cultivation. The average size of these marginal holdings is less than half an hectare and therefore a considerable number of them must be even smaller. At the other end of the spectrum the number of large holdings over ten hectares was only 2.6 million, but they accounted for 30.9 per cent of the total area under cultivation.

1.8 Industry presents a relatively more satisfying picture. The range of our industrial production is both large and varied. But the contribution of industry to G.N.P. is still only about 17 per cent.\* This industry is by no means a homogeneous sector embracing, as it does, large, medium, small-scale, household and now 'tiny' industries. The spread of technology and productivity is correspondingly uneven, and so is the level and structure of wages.

1.9 The wage structure abounds in disparities, distortions and anomalies between the government, public and private sectors and within each sector itself. The operation of a medley of dearness allowance systems resulting from varying types of collective bargaining and adjudication, has further aggravated the problem. To give a few examples by way of illustration, an office clerk in some private sector firms gets more emoluments than, say, a Deputy Secretary to the Government of India or a C.G.H.S. doctor with more than ten years of service. Some peons in the public or private sector get more than clerks in the Central Government or a Head Master employed in a municipal school in the same station. A staff car driver of an engineering or chemical firm may draw two to three times the salary of his counterpart in Government. In certain sectors, some of the lower staff get more than their immediate supervisors. Top managers in the private sector receive emoluments much in excess of what the highest paid executive anywhere in the public sector gets. The irritant potential of such disparities and anomalies is disproportionately high, and tends to come in the way of good and necessary reforms.

1.10 Another feature of the Indian economy is the great variation in productivity in the various sectors, and indeed within sectors, and even within similar types of enterprises. In certain cases — for example the handloom sector in which 9.5 million people are engaged — the current productivity of the workers hardly permits the payment of a subsistence wage. These wide differences in productivity also create many difficulties whenever the "capacity to pay" of an industry or enterprise becomes a criterion for any economic purpose.

---

\* Central Statistical Organisation: Quick Estimates 1976-77.



1.11 The most dominant feature of the Indian economy is, however, the great preponderance of the self-employed and the euemployed and under-employed. This is further discussed in the Chapter on the Structure of Incomes. It is only in the organised sector (in which the government and public sector already predominate) which includes less than 25 million people that salaries and wages are subject to some measure of conscious determination. In the rest of the economy, which is the greater part and in which the predominance of self-employed is decisive, the level and distribution of incomes can only be guided or influenced by economic policies. The uneven distribution of incomes is such that the large majority have little or no capacity to save. The generation and mobilisation of domestic savings for investment and development, therefore, becomes a difficult and complex problem. At the same time, it is of paramount importance that economic policies ensure steady increase in the generation of savings and their deployment in the most beneficial manner.

1.12 All these problems will be difficult enough even in a regime of stable prices. But they have been rendered much more so by the continuous increase in prices over nearly two decades. This causes further distortion through unintended and arbitrary redistribution of incomes in ways generally unfavourable to the majority of people. We would, therefore, lay stress on the crucial importance of reasonable price stability. When the measuring rod itself is apt to change its size, all other economic policies become difficult to implement, even more so in a planned economy.

#### Experience in other countries

1.13 Ordinarily, one could benefit from the experience of other countries, both developed and under-developed, which have attempted income policies, for example, Netherland, Norway, Sweden, France, U.K. and U.S.A. In those countries, incomes and prices policy has generally been used as an ancillary weapon of defence against rising prices or as an instrument to support the balance of payments. It has supplemented other conventional monetary and fiscal tools of economic policy. In some countries like the Netherlands and the Scandinavia, incomes policies have also been used as an instrument for the regulation of the distribution of national income. In the United Kingdom, curbs on wages incomes have periodically been used in attempts to stabilise the economy. In countries like Australia and New Zealand the income and prices policies have been similarly used. In the United States these policies have been used as a precautionary technique against inflationary tendencies when tax cuts and other expansionary measures were to be applied. However, income and prices policies adopted in the United Kingdom have been a rather plastic concept, whose shape has been moulded by economic circumstances and political requirements rather than by any definite and clearly discernible principles. These policies have been pursued mainly through norms and guidelines, and their implementation sought through exhortations rather than statutory measures.

1.14 The experience of the operation of such policies in the developed countries, whatever the degree of success achieved, can be relevant only where broadly

similar conditions prevail. The most important of them is the large share of wages in the national income. In India, however, the wage and salary sector is much smaller and non-wage incomes constitute, as has been shown in the Chapter on the Structure of Incomes, a major component. Within the wage and salary sector, the organised portion of the wage sector forms a small fraction of the total working force. In general, therefore, the experience of these countries would not be of much relevance for us because conditions are radically different.

### Existing policies

1.15 We have, therefore, in the main to rely on our own past experience to forge appropriate instruments, reshaping them as we go along in the light of experience. We have already evolved and introduced certain measures and practices which can be regarded as ingredients of incomes policy. It would be useful to take a brief look at some of them and their results.

1.16 The minimum Wages Act, 1948, intended for the betterment of the lot of workers in sweated industries, has had but a feeble impact on the unorganised and weakly organised sectors. The wage policy under the earlier Five Year Plans showed some concern with anomalies in existing wage structures and restoring pre-war real wages. The creation of the tripartite Wage Boards sought to promote the role of workers in the evaluation of a wage structure. In the Third Five Year Plan, there was a shift in emphasis towards productivity and better implementation. The Fifth Plan sought to relate wage policy indirectly to certain minimum levels of consumption for those below the poverty line.

1.17 Some of our fiscal policies, mainly progressive taxation of personal income and wealth, can be regarded as ingredients of incomes policy. Several other legislative, fiscal, monetary and economic policies followed since independence have shown a certain consciousness of the need for a more equitable distribution of incomes. Examples are: Statutory restrictions on the remuneration of company Directors; lower interest rates for the benefit of some of the weaker sections of society; provision of certain commodities like foodgrains and sugar at subsidised prices; and special treatment to the handloom industry which gives employment to a large number of unemployed. Most of these policies, however, were evolved in response to particular situations and compulsions, and did not form part of a deliberately devised integrated structure. Naturally enough, there have sometimes been conflicts in the operation of different policies with different objectives. A more cohesive and integrated approach, which would harmonise the different objectives, is therefore necessary.\* Such an approach does not mean a uniform prescription, but a package of measures consistent with each other and serving common objectives. In the process, adjustments will of course have to be made from time to time to reconcile and harmonise different objectives and to develop a scheme of relative priorities among them.

---

\* In fact, the need for such an approach was recognised when the Government constituted in 1964 a Steering Group on Incomes, Wages and Prices Policy which reported in 1966.

### The objectives

1.18 The basic objectives of an integrated incomes and prices policy cannot be different from those nationally adopted for planning economic and social development. Therefore, the thrust has to be towards the primary objectives of the Draft Plan 1978-83, viz., (i) removal of unemployment, (ii) rise in the living standards of the poorest sections and (iii) provision of basic needs of the poorest people. These are to be attained through a higher rate of economic growth, and reduction in inequalities. With this background, some specific objectives can be identified.

### Wage policy

1.19 Wage policy has to strike a balance between (i) ensuring minimum incomes for unorganised labour and (ii) increasing opportunities for employment. It is a well-known fact that in our country the number of unemployed today is nearly as large as the number of employed in the organised sector who get special attention compared to the unemployed. It is thus necessary that policies should give even greater attention to the generation of employment than to improvement of the lot of the already employed.

1.20. Wage policy has also to fit into the model of the newly announced industrial policy which seeks to promote the development of small-scale and 'tiny' industries with a rural bias. The wage structure sought to be brought about should not be beyond the present or potential capacity of such industries. Otherwise, the policy would be self-defeating.

1.21 Wage policy must pay adequate attention to rationalisation of wage structures and ironing out of the more glaring anomalies.

1.22 Wage policy should also aim at evolving a more scientific approach towards incentives for higher productivity and for better performance; in short, encouraging a system of payments related to output or performance.

### Other incomes

1.23 Incomes policy should also cover all non-wage incomes. Disparities in the non-wage incomes sector of the economy are also quite great. It is extremely difficult to regulate or guide the generation of incomes in this sector. Apart from progressive taxation, the emphasis should, therefore, be on influencing or regulating the use of these incomes so as to encourage savings and investment, discourage ostentation and luxury, and generally reduce disparities in consumption. All this should apply equally to the higher incomes in the agricultural sector.

1.24 We would once again emphasise that raising the level of incomes of those now below the poverty line or around, whether in the rural or the urban sector, is of even greater importance.

### Price policy

1.25 The main object of price policy should be to maintain reasonable stability while allowing sufficient flexibility for changes in relative prices which may become necessary in response to changes in taste or behaviour or for redirecting productive resources to socially desirable channels. In particular, reasonable prices should be assured to farmers for their agricultural products, but taking care to see that benefits of increased productivity go in some measure to consumers also. Where, in the public interest, essential commodities are provided to the economically weaker sections of the community at subsidised prices, it should be ensured that the benefits actually go to those for whom they are intended. The price system, as a whole, should subserve the major long-term economic objective of growth and development in desired directions.

### Conclusion

1.26 While trying to suggest policies and measures in the various fields covered by our terms of reference, we have tried to keep these objectives in view. As we have said at the outset, our suggestions relate only to a few areas, but these we regard as the most important in terms of priority. In the short time at our disposal, we have not found it possible to do more.

1.27 While making our recommendations and suggestions, we have kept in view the need to reduce disparities. Our recommendations regarding minimum wages, the desired minimum rural household income to be brought about by a set of developmental and economic policies, and the beginnings of social insurance are designed to uplift the lower incomes at a faster rate. We have also suggested a scheme of compulsory saving which would serve to moderate the consumption of those with high incomes.

1.28 We would like to say in conclusion that circumstances today are exceptionally favourable for the introduction of integrated policies illumined by a longer term approach, and to take some risks in that context. By and large, prices have been held under check during the last three years. This should strengthen our hope and determination to maintain reasonable price stability in the long run. We have sufficient buffer stocks of foodgrains to sustain and enlarge policies for the expansion of rural employment. Our foreign exchange reserves give us a position of strength to undertake measures necessary to avoid scarcities and to even out large fluctuation in prices. To get economic benefits from these valuable assets, we should try to make positive use of them for development rather than merely be happy and content with having them.

## Chapter II

### THE STRUCTURE OF INCOMES

2.1 The structure of incomes can be studied on the basis of (i) the composition of working population and (ii) the composition of national income as derived from different factors.

2.2 There is no agency at present which collects and studies data relating to structural changes in the composition of the working population on a continuing basis. The Census takes place every ten years and statistics for the intervening years have, therefore, to be estimated. On such estimates, the working population in India at the end of March, 1978 has been estimated at about 261 million (Table 1). This can be conveniently divided into two broad categories; wage and salary earners, and self-employed, the distribution between these categories being:

<u>Category</u>	<u>Million nos.</u>	<u>Percentage</u>
1. Wage & Salary earners	101	38.5
2. Self-employed	<u>160</u>	<u>61.5</u>
Total (1 + 2)	<u>261</u>	<u>100.0</u>

2.3 If we look at the structure of incomes from the point of view of the composition of national income at factor cost, a broadly similar picture emerges.

#### Composition of net domestic product at factor cost in 1974-75 (at current prices)

No.	Composition of Incomes	Amount Rs. crores	Percentage
1	2	3	4
1.	Compensation of employees	19,277	33.0
2.	Profits and dividends	3,142	5.3
3.	Incomes of the self-employed	31,519	53.7
4.	Interest and rent	<u>4,547</u>	<u>7.8</u>
	Total :	<u>58,485</u>	<u>100.0</u>

Source : Central Statistical Organisation : National Accounts Statistics  
1960-61 — 1974-75.

2.4 It can be assumed that profits mostly go into the incomes of the self-employed. Similarly, the dividends are also likely to go mostly to the self-employed although a part is known to accrue to those whose main source of income is salary or wage, but the size of this part is not easy to determine. Interest and rent go to owners of property who, while spread over a wide range of income groups, are more likely to be found in the higher brackets. By and large, the incomes of the self-employed, whether affluent or poor, would be non-wage incomes while the incomes of those who depend mainly on salaries and wages might be supplemented to a small extent from other sources.

### Wage incomes

2.5 Wage incomes would account for all the wage and salary earners in the organised as well as in the non-organised sector. Out of a total employment of 24.8 million in the organised sector, about 60 per cent (15 million) is accounted for by the public sector. The public sector represents the employees of the Central Government, State Governments, quasi-government and local bodies and the employees of the public sector undertakings. In the organised private sector, the major part of the employment (over 60 per cent) is represented by workers engaged in manufacturing activities. The next in order are community, social and personal services; agriculture; wholesale and retail trade; finance and insurance; mining and quarrying; construction; transport; storage and communications.

2.6 In the unorganised sector, the biggest segment of wage and salary earners is represented by agricultural labour which number about 58 million -- about 58 per cent of the wage and salary earners, and about 22 per cent of the working population in 1978. The problems of this category of workers are rather complex because of the seasonal nature of their employment and fluctuating hours of work, chronic under employment specially of the landless labour, and also due to payment of a part of their wages in kind.

2.7 In addition, there are about 17 million workers in the unorganised sectors such as cottage and small scale industries, small commercial establishments and in other economic activities doing specific jobs for contractual remuneration on daily, weekly, or monthly rates. These persons are to be regarded as wage and salary earners only in the sense that there is a minimum degree of stability in their employment as well as a clear employer-employee relationship. They are, therefore, economically vulnerable.

### Non-wage incomes

2.8 Contrary to the situation in developed countries, non-wage earners in our country form a major part of the total working population. Further, the contribution of non-wage incomes to the national income is about two-third of the total net domestic product. The more important components of non-wage incomes are discussed below.

2.9 A substantial part of the non-wage income is received from agriculture which contributed about 41 per cent of the net domestic product in 1976-77 at constant prices (1970-71 = 100)\*. About 128 million persons are directly engaged in agricultural activities. This accounts for nearly 80 per cent of the total self-employed and about 49 per cent of the total working population. The incomes of agricultural labourers are also indirectly dependent upon the incomes of those directly dependent on farms either as owner cultivators, share-croppers or tenancy cultivators. In some cases, these incomes might be supplemented by remittances from those working in the organised sector, and from activities other than cultivation.

2.10 The non-agricultural self-employed number about 32 million. These persons work with their own means of production, skills and enterprise. A variety of services is included under this category, such as those engaged in manufacture and repairs, transport and storage, trade, construction, mining and quarrying. Also included in this category are professionals like lawyers and doctors, and artisans and handicraft workers in both rural and urban areas.

2.11 About eight per cent of the net domestic product in 1974-75 was generated on account of interest and rent. As noted earlier, these go to supplement the incomes of various types but, being related to ownership of property, the greater part is likely to accrue to the better off.

#### The poverty profile

2.12. The concept of poverty is difficult to define and includes not merely the destitutes and the unemployed but also those whose earnings are below what may be regarded as the minimum acceptable standards. There is some uncertainty as to the exact extent of poverty existing in India but, depending on the norm used, roughly between 40-60 per cent of the country's population is said to be living below the poverty line. The problem is acute both in rural and urban areas.

2.13 An expert committee of the Planning Commission had related the poverty line to per capita monthly consumption of Rs.53 in rural areas and Rs.62 in urban areas at 1973-74 prices. An alternative estimate (Dandekar and Rath) was based on nutrition requirements at Rs. 15 per month per head in rural areas and Rs.22.5 per head in urban areas at 1960-61 prices. These estimates revealed the following picture:

#### Percentage of persons below the poverty line

	<u>Rural</u>	<u>Urban</u>	<u>Total</u>
<u>Expert Committee of Planning Commission</u>			
1970-71	64.08	57.30	62.73
1973-74	60.56	55.19	59.49
<u>Dandekar &amp; Rath</u>			
1970-71	45.56	50.50	46.54
1973-74	41.49	48.12	42.74

Source: 'Yojana' Annual Number, 26th January, 1978.

\*Central Statistical Organisation : Quick Estimates. 1976-77

2.14 According to a recent estimate of the Planning Commission using norms of calorie consumption, the percentage of population below the poverty line in 1977-78 has been projected at 48% in rural areas and 41% in urban areas. Whichever way the assessment is made, the fact remains that a large mass of people still continues to be below the poverty line.

2.15 To appreciate the true dimensions of the problem, this mass of people has to be regarded as a continuum of poverty descending to the lowest level of destitution. According to a study\* based on the 28th round of the National Sample Survey, the percentages of people below the lines of severe destitution, destitution and poverty in the year 1973-74 were as follows:

Percentage of population below the lines of severe  
destitution, destitution and poverty

S. No.	Item	Urban		Rural		Total	
		Per- cent- tage	Cumu- lative per- cen- tage	Per- cen- tage	Cumu- lative per- cen- tage	Per- cen- tage	Cumu- lative per- cen- tage
1	2	3	4	5	6	7	8
1.	Severe destitutes	12.56	12.56	13.42	13.42	13.24	13.24
2.	Destitutes	15.06	27.62	12.15	25.57	12.75	25.99
3.	Poor	19.42	47.04	19.55	45.12	19.53	45.52

For the above estimates the severe destitutes were those households which had incurred per capita expenditure per month of Rs.28 or less in the rural areas and Rs.34 or less in the urban areas. The destitutes were those families for whom the corresponding figures per month were Rs.34 for the rural areas and Rs.43 for urban areas. The corresponding figures for the poor households were Rs.43 and Rs.55. The cut off points adopted do not appear unreasonably high.

2.16 It will be observed that an estimated 29 per cent of the persons below the poverty line are severe destitutes; and that severe destitutes and destitutes taken together account for as much as 86 per cent of the population below the poverty line. Although the relative distribution of these population groups varies from State to State, there are proportionately as many destitutes and severe destitutes in the urban areas as in the rural.

\* C.K. Johri and S.M. Pandey: "Rural-Urban Employment and Income Differentials"; Shri Ram Centre for Industrial Relations and Human Resources, 1978.



2.17 The problem of poverty is closely linked to wide-spread unemployment and under-employment. The total unemployment in India is estimated to be of the order of 20.6 million man years : 16.5 million in rural areas and 4.1 million in urban areas. The rate of unemployment at about eight per cent of the labour force is to be compared with three to six per cent to which developed industrial countries have mostly been able to reduce open unemployment. \* In absolute terms, the magnitude of unemployment in our country is larger than in any other country in the world. \*\*

### Concentration of income

2.18 The problem of unemployment is also closely related to inequalities in income which are not merely its consequences but in some ways among its causes as well. In this connection, attention may be drawn to Table 2 which presents data relating to the share in the disposable income claimed by different decile groups of population. It will be seen that the bottom ten per cent of the households had only 1.8 per cent of the aggregate income, the average annual income of a household in this group being Rs. 495. The bottom 50 per cent of the households had a share of about 19 per cent in the total income. As against this, the top 20 per cent of the households had as much as 53 per cent of the aggregate income, while the top ten per cent had 36 per cent share. (The top one per cent of the households were estimated to receive around nine per cent of aggregate income of the household sector.

2.19 Further, while there appears to be no marked difference in the distribution of income between the urban and rural areas, a high degree of concentration of income is seen in both the rural and urban areas. Briefly, the position is indicated below.

Decile groups	Share of disposable income (in percentages)	
	<u>Rural</u>	<u>Urban</u>
1. Bottom 10 per cent	1.83	1.97
2. Bottom 30 per cent	8.65	9.43
3. Bottom 50 per cent	18.88	20.43
4. Top 20 per cent	53.33	52.54
5. Top 10 per cent	36.06	36.92

These data relate to 1967-68. More recent data are not available, but the broad pattern of distribution is not likely to have changed significantly since then.

---

\*International Labour Organisation: Employment, Incomes and Equality: a strategy for increasing productive employment in Kenya, 1972.

\*\*Draft Five Year Plan 1978-83, Vol. II.

### Tax-evaded earnings

2.20 The distribution of income would be even more skewed if we take into consideration the amounts and the ownership pattern of undeclared or tax-evaded earnings, popularly referred to as black income. A major part of the tax-evaded earnings belongs to persons who are in the higher income brackets. The marginal propensity to consume in the case of tax-evaded incomes is higher than in the case of tax-paid earnings, for the reason that invested amounts are to be explained in income-tax returns. The pattern of disposable income (Table 2) becomes thereby further distorted. These incomes may be used for hoarding of essential goods and speculative and black market operations resulting in contrived shortages and affecting movement of prices; they are also often used for investment in non-institutional channels such as purchase of gold, jewellery, land, and lavish residences which do not promote the process of economic growth. The Wanchoo Committee had remarked that "clandestine deals and undisclosed investments arising from black money have caused a serious problem of tax evasion which increases in geometric progression as black money generates more black money and evasion breeds further evasion". \* Estimates of such undisclosed income vary greatly, but the proportion of tax-evaded earnings to the total taxable personal and corporate incomes is believed to be quite significant. Continued existence of this phenomenon would blur the effectiveness of any integrated incomes and prices policy and it is, therefore, imperative that efforts continue to be made to bring these earnings into the tax net.

---

\* Report of the Direct Taxation Enquiry Committee, page 21.



## Chapter III

### MINIMUM WAGE

#### Evolution of minimum wage policy

3.1 The evolution of a policy on minimum wages can be traced to the Industrial Truce Resolution (1947) which was an aftermath of the industrial unrest immediately prior to and after independence. This was followed by the Industrial Policy Resolution of 1948 which emphasised, *inter alia*, the need for (i) fixing statutory minimum wages in sweated industries and (ii) to promote fair wage agreements in the more organised industries.

3.2 The enactment of the Minimum Wages Act, 1948, recognised that, if exploitation of labour through payment of unduly low wages was to be prevented, wages could not be left to be determined entirely by market forces. The Act empowers Central and State Governments to fix minimum rates of wages for different employments. At present, minimum wages under the Act have been notified for 144 scheduled employments all over the country.

3.3 The Committee on Fair Wages (1948) defined three distinct levels of wages: 'living wage', 'fair wage' and 'minimum wage'. The living wage represented a standard of living which, according to the Committee, provided not merely for bare physical subsistence but for the maintenance of health and decency, a measure of frugal comfort including education for the children, protection against ill health, requirements of essential social needs and some insurance against misfortunes. The 'minimum wage' was to ensure not merely the bare sustenance of life but the preservation of the efficiency of the worker by providing some measure of education, medical requirements and amenities. The Committee envisaged that while the lower limit for 'fair wage' must obviously be the 'minimum wage', the upper limit was set by the capacity of the industry to pay. For purposes of calculating a fair wage the needs of a standard family of three consumption units were to be taken into account. In the organised sector, wage fixing authorities have generally been guided by the report of this Committee.

3.4 The Committee had indicated only the components which should be taken into account in fixing minimum wage. It was the Indian Labour Conference (15th Session), which, for the first time, moved in the direction of formally quantifying its main components. The Conference set certain norms for calculating food, clothing, housing and other miscellaneous items to serve as guidelines to the minimum wage fixing authorities.

3.5 The Second Pay Commission (1957-59) took note of the norms set by the Indian Labour Conference (I. L. C) and the minimum worked out on that basis by major organisations of Central Government employees. The Commission, while

accepting the other norms of the I. L. C., worked out its own diet schedule. The minimum wage fixed by the Commission was Rs. 80 corresponding to all-India Working Class Consumer Price Index level 115 (1949=100).

3.6 Wage Boards which reported after the Second Pay Commission adopted no rigid attitude to the need-based wage formula, although a few of them (e.g., sugar, cement) did try to find the money equivalent of the norms suggested by the I. L. C.

3.7 The National Commission on Labour (1969) held that

"in fixing the need-based minimum wage the capacity to pay will have to be taken into account.....The need-based minimum which is in the range of the lower level of the fair wage attracts, in its determination, the employers' capacity to pay".\*

3.8 The Third Pay Commission (1970-73) took the view that a government employee at the beginning of his career is not required to support a family of three consumption units and that he is deemed to reach that size only at the end of about five years. It also adopted its own diet schedule. The Commission accordingly recommended a minimum wage of Rs. 185 for the lowest paid employee although its calculations based on three consumption units came to Rs. 196 per month. The Government, however, adopted Rs. 196 as the minimum wage for Central employees, rejecting the theory of two units for a fresh employee.

#### Prevalent minimum wages

3.9 There are considerable disparities in the minimum basic wage and allowances being paid in different industries and undertakings in the organised sector (table 3). If cash allowances like house rent allowance, city compensatory allowance, uniform allowance, guaranteed overtime allowance, etc., and fringe benefits relating to medical treatment, leave travel and subsidised rent are taken into account, the disparities are seen to be even greater (Table 4). These variations lend credence to the theory that regional and inter-sectoral considerations and perhaps the paying capacity of the employer play a role in determining the minimum wage. Instances of markedly high minimum wages in certain industries may point to the unequal influence of collective bargaining within the organised sector.

3.10 An idea of the range of minimum wages prevalent on 31.12.77 -- the latest date for which reliable information could be gathered -- may be had from Table 5. However, the statistics presented therein indicate only the range of the minimum wages for the various employments taken together. A study of the prevalent rates reveals certain pockets of exceptionally low wage employments in different States, as illustrated below:-

---

\*Report of the National Commission on Labour, 1969, p. 238

**Lowest minimum wages under Minimum Wages Act  
in selected employments in different States  
(As on December, 1977)**

(Figures in Rupees per day)								
Sl. No	Employment	Assam	Bihar	Hima- chal Pradesh	Orissa	Tamil Nadu	Tri- Pura	West Bengal
1	2	3	4	5	6	7	8	9
1.	Rice, flour and dal mills	1.54	2.00	2.50	2.25	1.25	-	-
2.	Plantations	-	1.19	2.00	-	1.50	1.12	1.13
3.	Oils Mills	1.54	2.00	2.50	-	1.90	-	-
4.	Lac manufacture	-	1.50	-	-	-	-	-
5.	Tanneries and leather manufac- turing	-	-	-	-	2.19	-	-
6.	Public motor transport	1.81	-	-	2.50	2.30	-	-

Source: Ministry of Labour.

3.11 The Minimum Wages Act provides for periodical revision of the statutory minimum wages notified under the Act. Despite this, if the level of minimum wages in these employments is still very low, possibly the market mechanism of demand and supply of labour has been allowed to play its part. Even in regard to employments for which relatively better minimum wages have been notified, it is by no means certain that enforcement has been effective.

3.12 Agriculture is included in the scheduled employments under the Minimum Wages Act. As will be seen from Table 6, the variations in the rates of minimum Agricultural wages fixed in different States are equally striking. The lowest rate, on the dates indicated, is Rs.3 to Rs.4.50 per day in Maharashtra, and the highest in Kerala where it ranges from Rs.6.50 per day for light work to Rs.8.00 for hard work. In other States it moves within these limits. The prescribed wage rates in agriculture do not however present a complete picture because there is no guaranteed employment for all the days in the month or even for a prescribed number of days as in the case of industries, and the extent of unemployment and self-employment is quite large.

### National minimum wage

3.13 Our terms of reference require us to consider what the minimum wage should be and whether it should be uniform between different sectors or regions. The National Commission on Labour had expressed the view that "a national minimum wage in the sense of a uniform minimum monetary remuneration for the country as a whole is neither feasible nor desirable". They thought however, that regional

minima could be fixed in different homogeneous regions in each State. Workers' organisations had then suggested a national minimum below which no employer should be allowed to hire labour, although at the same time they thought that suitable safeguards would have to be evolved so that the minimum so fixed does not tend to become the maximum. Some others had felt that a national minimum for sweated industries might be fixed, but that fixing a minimum was unnecessary for others.\*

3.14 In our view, the real minimum wage can only be the absolute national minimum, irrespective of sectors, regions or States, below which no employment would be permitted.

3.15 In determining such a national minimum wage, several considerations will have to be kept in view. Apprehensions have been expressed from time to time that the enforcement of a national minimum wage might inhibit generation of employment and promote capital intensive technology in the organised sector. With large numbers of people unemployed and under-employed, it is obvious that the impact of an absolute minimum wage on the generation of employment should be a primary consideration. Further, it appears that the unorganised sector has acted as the safety valve for the growing surplus population of the villages, and it is important that this valve is not unduly choked. The question has therefore to be approached with caution.

3.16 A national minimum has necessarily to be at a realistic level, consistent with various factors including national per capita income and further generation of employment. In keeping with the current policy, it cannot also deviate too much from the existing wage earnings in the small scale sector. A meaningful relationship with the prevalent wage earnings cannot, of course, apply to some of the distressingly low levels of statutory minimum wages at present fixed. On the other hand, the per capita national income can only provide limited guidance. The present annual per capita income is Rs. 1049 or about Rs. 87 a month. The actual minimum on this yardstick would have to be somewhat higher on the assumption that every worker has to support one or more dependants. Here again, the basis of three consumption units generally accepted for the organised sector is not altogether applicable as this would be appropriate only when we think of employment during which a person has to support a certain number of others. An extreme view could be that the national minimum below which no employment is permitted should be sufficient for the minimum essential needs of a single person only. But a more realistic approach in our conditions of society would perhaps be to relate it to somewhere between one and two consumption units.

3.17 Ideally, the prescription of a minimum wage in the unorganised sector should be need based. However, the total distributable income being limited, wages in the low wage sector can only be increased at the cost of something else which, we are afraid, would be the much more needed employment itself. At the same time, in an economic system the national per capita income does provide an indicator of productivity and performance. To the extent that, because of existing income inequalities, the majority of people in the country would be below the national per

---

\*Report of the National Commission on Labour, 1969, pages 233-4.

capita income, fixation of a national minimum wage on this basis implies an improvement in the remuneration of the vast majority of workers.

3.18 The Government is now adopting a policy of larger employment in the small scale and unorganised sector. If production in this sector is to be economic, as envisaged, wages have to be at a level consistent with the lower productivity in this sector. Obviously, this sector cannot be developed if the minimum wage is anywhere near the level already prevailing in the large scale industrial sector. According to the latest Annual Survey of Industries, the average wage per worker in the small scale sector is only about Rs.2000 per annum.\* The minimum wage is, of course, much lower in many cases as shown in para 3.10 ante, and particularly so in the handloom sector (Table 8). And yet this sector alone provides direct or indirect employment to nearly 9.5 million persons.

3.19 Other possible benchmarks for determining the national minimum wage could be provided by (1) the per capita national income adjusted after applying the participation rate, (2) average national income per consumption unit, and (3) per capita rural consumption expenditure. Such estimates yield a range of figures between Rs.85 and Rs.181 per month.

3.20 Taking all relevant considerations into account, we are of the view that our initial target for the minimum wage in the sense of an absolute national minimum should be Rs.150 a month at current prices. We are, however, convinced that immediately it is not practicable to adopt this figure without seriously jeopardising employment and handicapping the growth of the small scale and tiny sectors. Therefore, while efforts should be made towards achieving this goal as soon as possible, and at any rate within a period of about seven years, we recommend that, to begin with, the national minimum wage below which no employment will be permitted may be fixed at Rs. four per day of eight hours unskilled work, inclusive of any part payment in kind, where customary. Where the employment is on a continuous monthly basis, the monthly rate will be arrived at according to locally prevalent practices but will not be less than Rs.100 per month. This is suggested in order to provide some incentive for promoting continuity of employment. We feel that the very announcement of this policy and its wide dissemination will itself have a tonic effect and make workers conscious of their rights.

3.21 We further recommend that the quantum of the national minimum wage should be revised every two years till the recommended level of Rs.150 per month (at 1978 prices) is reached. Thereafter, it should be mandatory to revise the minimum wage every three years in relation to the trend increase in real per capita national income. Similarly, it should be obligatory on the concerned Governments that the minimum wages fixed under the Minimum Wages Act, 1948, in various occupations and activities are in fact revised every three years. Available information indicates that in a number of employments the minimum wages fixed under the Act several years back have not so far been revised.

---

\*See also table 7 showing average per capita daily earnings of workers in the small scale and the organised sectors.

3.22 The proposed minimum wage will be applicable throughout the country for unskilled work for every adult of 18 years or above, irrespective of sex. The present statutory minimum wages, wherever they are lower than the proposed national minimum, will have to be brought up to this level. This will not debar State Governments from notifying or revising statutory minimum wages or adding new scheduled employments or appointing Committees to work within the ambit of the Minimum Wages Act, 1948, except that it will not be open to the Central or State Governments to fix minimum wages for any employment below the national minimum. In other words, the national minimum would cover and assist those for whom the present statutory wage happens to be lower than the national minimum as well as those for whom no minimum has been prescribed either under the Minimum Wages Act or under any agreement, award, settlement, etc. in force. While it would aim at giving such people limited economic protection within the constraints of national resources, it will not adversely affect any employee or category of employees already in receipt of higher minimum, statutorily or otherwise; nor will there be any bar to the appropriate Government from revising upward the wages of those who may from time to time be receiving wages according to the prescribed national minimum. Thus the fixation of a national minimum wage at a relatively low level would in no way affect the higher level of wages already prevalent in various occupations or sectors, nor would it deter organised effort through collective bargaining to get higher wages. Similarly, it will not prevent supply and demand factors in the labour market regulating payment for unskilled work so long as such payment is not below the national minimum wage.

3.23 We wish to make it clear that even the daily rate of national minimum wage proposed by us presupposes regular employment, and that employment with a reasonably stable employer-employee relationship is an essential condition for the application of the minimum wage. Thus, for example, while it will clearly apply to contract labour as also labour employed by contractors, it cannot be made applicable to purely casual employment which is more akin to self employment. This will also not apply to work given out to be done in households, as there will then be no clear employer-employee relationship; for example, in the case of those part-time workers in the handloom sector to whom payment is made in relation to the product rather than the time spent on it.

3.24 In practice, the recommended minimum wage is likely to apply only to the lowest of employments or employments under schemes of the guaranteed employment or Antyodaya type which have been taken up by certain State Governments. Elsewhere, the de facto minimum will naturally continue to be higher. We can recognise several broad groups in ascending order. Next above the national minimum will be labour employed sometimes only part-time and sometimes only irregularly in agriculture and household industrial activities. Next above would be somewhat organised enterprises, distinguishable from those above, but not yet falling within the definition of factory. Next above would be employment in factories, and on top would come organised industries where the de facto minimum is already around Rs. 400 per month or more.



3.25 In the case of agricultural labour there is really no clear dividing line between self-employment and wage employment, one shading into the other. While the permanent farm servants can clearly be regarded as wage employees, agricultural labourers who work on daily wages sometimes for one farmer and sometimes for another are more like self-employed than wage employed. Moreover, their income is often derived from more than one activity, including non-farm occupation. In this context, the concept of minimum wages is difficult, if not impossible to apply except where wage employment is reasonably stable. The prescription by law of minimum wages per day is, therefore, essentially meaningless for agricultural labour. Yet, as mentioned in para 3.12 above, many State Governments have prescribed such rates of daily minimum wages. In some States, notably Kerala, these rates are said to get reasonable compliance. It will be clear, however, that the labour will get a minimum wages only when (a) demand for labour is high, in which case even more than the minimum can be earned, and (b) when the organisation of labour is so strong that workers prefer to do nothing at all rather than work at less than the minimum wage. But when, over all, the supply of labour considerably exceeds demand, the minimum wage will in effect not prevail, whatever may be the position on paper. In the circumstances, we consider that because of the irregular and seasonal nature of employment and unstable and varied sources of income, a desirable minimum rural household income would be a more meaningful concept in respect of the agricultural sector.



## Chapter IV

### THE RURAL SECTOR

4.1 The extent of poverty, inequalities in income and unemployment in the rural sector are well known. As mentioned earlier, roughly half of the rural population falls below the poverty line. Their number has been estimated at 238.6 million, the majority of whom can be classified as destitutes. Around two million persons are chronically unemployed. Then there are the under-employed who can find employment at some times but not at others. This category of unemployment, better measured in terms of mandays, is estimated to be equivalent to 16.5 million persons in rural areas being unemployed on a typical day.\*

4.2 An idea of the inequalities in income and assets distribution in the rural sector may be had from the relative shares of bottom and top 20 per cent of the households in total consumption, total incomes and total assets (including land), as under :

<u>Items</u>	Rural households (Percentage share)	
	<u>Bottom</u> <u>20 per cent</u>	<u>Top</u> <u>20 per cent</u>
* Consumption (1973-74)	9.5	38.0
** Income (1970-71)	8.0	42.0
@ Assets (1970-71)	0.8	69.0

It may be added that more than 30 per cent of the total assets are owned by the top four per cent of the rural households.

#### Minimum household income

4.3 In Chapter III, we have explained that the concept of a desirable minimum household income is of greater relevance in the agricultural sector than the national minimum wage. In determining such minimum income, the picture briefly outlined above will have to be kept in view.

---

\* Draft Five Year Plan 1978-83.

\*\* NCAER Changes in Rural Incomes in India 1968-69, 1969-70 and 1970-71.

@ Reserve Bank of India: All-India Debt and Investment Survey 1971-72

4.4 Table 2 shows the average disposable income per rural household by decile groups for the year 1967-68. When adjusted to current (1977-78) prices, the average disposable income for the bottom four deciles is estimated at Rs. 740, Rs. 1233, Rs. 1522 and Rs. 1838 respectively. The desirable minimum household income from all sources and by all earning members of the family should in our view be such as to enable the bottom 30 per cent (whose share of disposable income is only 8.65 per cent) to come up roughly to the level of the income enjoyed by the next higher decile group. It should also aim at eliminating the categories of severe destitutes and destitutes (see para 2.15) from among the rural poor. We accordingly suggest adoption of Rs. 1800 per annum for the present as the target for planning purposes. A set of policies would have to be designed with the object of creating conditions in which the households of those who work part-time or sporadically, as well as landless labourers and small and marginal farmers, are enabled to earn at least this minimum anywhere in the country within a period of seven years. As in the case of the national minimum wage, the figure will have to be periodically reviewed and adjusted upwards.

#### Policies proposed in the Draft Five Year Plan 1978-83

4.5 The Draft Plan has suggested various policy measures in order to eradicate poverty and unemployment in the rural sector. Among these are redistribution of surplus land, proper implementation of tenancy reforms, and organising the poor for the success of the redistribution policies and programmes. A sizeable shift of resources is envisaged towards the rural areas in terms of higher outlay for agriculture and allied activities. A massive minimum needs programme is also to be undertaken which is expected to improve the living standards and efficiency of the masses in the rural areas. An enduring solution has to be found through the continuous creation of opportunities for productive employment and in building up the requisite skills to enable people to benefit from these opportunities. The Plan accordingly aims at the creation of 23 million additional jobs in the agricultural sector. Higher priority is to be given to small scale and cottage industries the outlay for which has been more than tripled.

#### Short-term policy package

4.6 The programmes of investment and social and economic development and betterment which are included in the Plan will bring results in due course. Meanwhile, it is necessary to support and accelerate the employment effect of those programmes by several types of parallel action. This indeed should be the objective of the package of policies referred to in para 4.4 above.

4.7 The ingredients of such a package should obviously be such as would make a direct impact on those who are intended to benefit. It is, therefore, important to recognise who they are. Briefly, they should include the very poor in the rural

sector, namely, those with small bits of land, and even more those without any land or other worth-while assets except their own capacity to work. This means that the policies should aim at

- (a) improving the productivity and thereby increasing the return from the small holdings; and
- (b) increasing widely the opportunities for work (i. e., increasing the demand for labour) and ensuring that such work brings in somewhat better returns.

#### Returns on small holdings

4.8 The first objective is likely to be served by the various Plan programmes designed to improve the productivity of marginal farmers and making available the necessary inputs. These programmes are still in embryo; they must be taken beyond that stage without delay and then developed and spread quickly. But the fruits of these programmes would go waste if the produce is marketed at depressed prices. We would, therefore, recommend that development programmes in aid of marginal farmers should be supplemented by special marketing and procurement arrangements for the product. In particular, there should be organised price and procurement support for cash crops which small and marginal farmers should be encouraged to produce. For while price support for food crops can obviously benefit only those farmers who produce more than what they need for their own consumption, almost the entire production of cash crops would constitute a marketable surplus.

4.9 A fruitful approach would seem to be to use the instrument of a contractual guaranteed price to bring about a shift in the product mix of the small and marginal farmers in favour of crops which are at once labour-intensive and of high value. The differences in the value of output per unit of land in respect of some of the crops are so large that even a moderate shift in the cropping pattern of small holdings in favour of labour-intensive and high value crops can yield a substantial gain in income to small holders.

4.10 The problems here are that (a) many of these crops are not only labour-intensive but also cash-resource-intensive; (b) farmers like to raise their foodgrain requirements on their own farms; and (c) assured arrangements for purchase at guaranteed prices are necessary so that farmers are protected against the uncertainties of marketing and price fluctuations. While the first problem requires an effective provision of credit for these farmers essentially through cooperative banks and societies, the second problem requires an assured provision of foodgrain supplies at prices which may induce them to shift a part of their holding to high value crops — something which is now possible to do in view of the large wheat stocks with the government. The third problem, however, belongs in the area of price policy. Here the following scheme may be considered.

4.11 The scheme may start with a few selected commodities like potatoes, onions and dry chillies. Small and marginal farmers who are willing to participate in the scheme may be assured before the sowing season of a guaranteed price for these commodities at which they would be contractually obliged to sell the produce. Such farmers may be issued pass books in which the area devoted by them to these crops may be entered along with the usual range of fluctuations in their yield in the concerned area. This would indicate the range of likely production and thus minimise the scope for abuse of the scheme by the bigger farmers. Details of the scheme can be worked out to keep the leakage and abuse to the minimum and to ensure that the net benefit accruing to the small and marginal farmers is commensurate with the overall cost and administrative effort involved. The price to be guaranteed may be an approximation to the trend value of the prices of the commodity, by taking an average of the post-harvest prices in the previous five years.

4.12 The planning and purchase of these commodities may, as far as possible, be entrusted to local level institutions like Cooperatives, Small Farmers Development Agencies, etc., from which the produce may be collected, transported, stored and disposed of (in the domestic or the export market) by all-India agencies like the Food Corporation of India or the National Agricultural Cooperative Marketing Federation, deputed for the purpose. The functioning of the Small Farmers Development Agency should be so strengthened, with additional powers if necessary, as to ensure that the required credit and input supplies to raise these crops do reach the small farmers in time. The same agencies can be used for ensuring the supply of foodgrains required by these farmers. As experience is gained and success achieved in handling the initially selected commodities, the range of commodities to be covered by the scheme can be enlarged over time. This scheme will thus supplement and further extend the efforts that are being made to provide supplementary sources of income such as dairying and poultry farming, so that together they may rapidly assume a scale which can make a sizeable impact on the household incomes of the small and marginal farmers.

#### Employment guarantee scheme

4.13 Wider opportunities for employment would come about through the implementation of Plan programmes. But this would take considerable time and in the short-term their economic effects may not be felt appreciably. The time lags can be shortened if these programmes are so conceived that they also have the effect of withdrawing some labour from the market for employment in the house or farm. Programmes like cattle or poultry have this type of double potential. They provide work at home and thereby increase household income. At the same time they reduce the supply of labour, particularly of women, in the open labour market and thereby tone up the general level of daily agricultural wages.

4.14 We believe that even all this will not be quite enough. Therefore these efforts need to be strengthened by direct employment programmes in areas where other developmental activities are by themselves now insufficient.

4.15 Guaranteed employment programmes are likely to be looked upon with some distrust and hesitation. This is because of several reasons: mainly, (i) the likelihood of widespread abuse; (ii) the natural disinclination—in a society where, despite some aberrations on the surface, the sense of self-respect and individual dignity is both deep rooted and widespread — to give or accept doles; and (iii) the haunting fear that the bill might become too heavy.

4.16 A workable scheme has, therefore, to steer clear of all these pitfalls. One way of dealing with the first point would be to define and limit, from the outset, the people who are entitled to employment under the scheme. The list should be strictly confined to (i) adult members of landless families, including artisans and such like, whose households are not at present earning the desired minimum level of rural income; and (ii) adult members of families with less than a certain amount of land and whose total household income falls short of the desired minimum. Entitlement cards or preferably pass-books could be issued to them.

4.17 The second difficulty cannot be wholly overcome but it could be mitigated, and the third difficulty too largely solved, if the following conditions are satisfied:

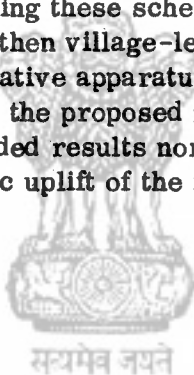
- (i) The daily wage offered should be, for unskilled labour, not less than the national minimum at daily rates.
- (ii) Those who offer their work should be required to work continuously at least for a week.
- (iii) They should be required to do whatever they are asked to do, although efforts should be made to give them the kind of work they know.
- (iv) When there is no work, or not enough work, they should still be paid, but to prevent abuse they should be required to remain in attendance.
- (v) After the week, which is mainly meant to prove bona fides and prevent abuse, the worker should be free to leave whenever he likes. In fact, he should be encouraged to do so by seeking better paid work elsewhere.
- (vi) The success of the scheme would depend entirely on the preparation of a sufficient number of local projects which are at least socially useful, if not quite economically viable. Administrative effort should be directed to the preparation and development of such schemes. This process itself could provide employment at suitably higher rates, for the educated unemployed and others with more skills.
- (vii) Every scheme should have provision for the required minimum of material inputs. Without such inputs the works will mostly be useless and would give no lasting benefit.

- (viii) It is important that all eligible people who offer themselves for work and accept the conditions should be given work and payment. There should be no limitation of number on grounds of insufficient finance or lack of schemes. Once there is such limitation, there will be selectivity and the schemes may fast degenerate into one of stipends for the proteges of political or other interest groups.

4.18 While the orientation of the employment programme as envisaged above will be towards development works, non-seasonal jobs as well as jobs according to the needs of the different locations may also be included. These may relate to activities like spinning and weaving, poultry, milk and milk products and cattle breeding.

4.19 We believe that if conditions such as we have indicated are incorporated in the scheme, there will be no uncontrolled flood of offers for employment. The innate sense of self-respect on the one hand, and the natural desire to earn more elsewhere if possible, would see to that.

4.20 For successfully implementing these schemes, it is necessary to revitalise the district administration and strengthen village-level institutions. Indeed, without radical reorientation of the administrative apparatus and definition of financial and physical accountability down the line, the proposed massive investments in rural areas are not likely to yield the intended results nor can percolation losses be limited sufficiently to ensure visible economic uplift of the intended beneficiaries of the investment and employment schemes.



## Chapter V

### HIGH INCOMES AND TOP SALARIES

5.1 Public concern about high incomes stems from two important but somewhat conflicting considerations. Firstly, given the poverty and unemployment that exist in our society, equity considerations demand that the existing wide disparities in incomes be reduced so that over time we move towards a more egalitarian society. While levelling up is a desirable route to attain this goal, in view of the pace at which this process is likely to work, there is an understandable concern that keeping top incomes in check should also be used to achieve the goal of reduction in inequality.

5.2 Secondly, to the extent that high incomes, especially salaries, accrue to the top personnel who organise and manage critical functions and activities in the economy, efficiency considerations also influence public thinking on this subject. Are the monetary rewards we offer to our top managers, administrators and professionals too much or too little in relation to the contributions and results society expects of them? Are the differentials that exist between the emoluments received by the top personnel working in different types of organisations and assuming different degrees of risks and responsibilities such as to get the best out of them and optimise the allocation of scarce manpower resources among alternative uses ? These questions highlight the linkages between performance, motivation and rewards and the need to bear efficiency consideration in mind while evolving a policy on top incomes and salaries.

5.3 Admittedly, society has to strike a balance between equity and efficiency considerations and, invariably, the balance is struck on the basis of informed judgement, taking into account the existing circumstances as well as the degree of shock that the economic and social system can take. The use of progressive income taxation is a good example of the operation of this process, the marginal tax rates reflecting the balance being maintained between the two conflicting considerations referred to above.

5.4 The process of earning of high incomes itself cannot be objected to; in fact, to the extent it reflects increased production, it should be welcomed. It is the problem of conspicuous consumption in higher income brackets that needs to be tackled. Conspicuous consumption, especially in a developing country like ours, has certain undesirable effects which need to be mitigated, if not eliminated altogether. One effect is economic. Conspicuous consumption distorts the total consumption pattern away from desired channels and, to the extent that investment follows market trends, there is a diversion of scarce resources into unplanned, non-priority lines. A secondary effect of this distortion in the investment pattern is to cause bottlenecks in vital industries; for example, a spurt in building of luxury residential apartments may cause shortages in steel or cement vitally needed in other priority sectors. The second effect is a psychological one—the inevitable heart-burn involved when a large mass of people living near the poverty line watch a small minority indulge in lavish luxuries.



5.5 In fact, until India attains a moderately reasonable standard of living and extreme poverty is abolished, and a minimum of social security is provided to all, the emotional urge for a ceiling on income is bound to be great. Of course, it can be shown that redistribution of the wealth and incomes of the top few will provide only for an infinitesimal increase in the incomes of the poor; and even this may be lost through the national income itself falling more than correspondingly owing to the weakening of incentives for work and enterprise. It can again be shown, both deductively and by historical experience, that only levelling up can work. All this may be true. Yet, the widespread prevalence of an urge for some ceiling on income, at least so long as there are large numbers of the very poor, is by itself a fact which cannot be ignored.

#### Problems in controlling high incomes

5.6 The control of top incomes and salaries is, however, a complex problem in the Indian context for several reasons. Salaries which are more amenable to control are but a small proportion of the total incomes in the country. The major share of incomes belongs to the self-employed-- Rs.31,519 crores out of the net domestic product of Rs.58,485 crores in 1974-75. This class, among whom could be counted the rich farmers and traders, professionals, investors and entrepreneurs and those living off their own or inherited wealth, forms about 62 per cent of the working population in India. Yet, their incomes, unlike salary incomes, are not easily amenable to verification and administrative control. Not much data are available concerning their income other than what can be had from the National Sample Survey and from what is declared for tax purposes. Admittedly, the bulk of the self-employed will be below the taxation limit, but even those whose incomes become liable to taxation can come into the system only if they file a return. In this process a large number of marginal cases and those who are able to avoid tax remain wholly outside the system. It is thus not surprising that the number of income-tax assesses among the professional class is rather small (Table 9).

5.7 Income arising from rents are similarly difficult to regulate effectively, though incomes from profits and dividends do to a great extent come under some surveillance as these arise from the corporate sector which comes within the tax net.

5.8 There is also the problem, referred to by us in Chapter II, of the existence of sizeable black incomes which remain wholly outside the sweep of fiscal policy and hence also outside the system, making its regulation even more problematical.

5.9 Direct control and legislating ceilings over the incomes of the self-employed are not only difficult to enforce but may also turn out to be counter-productive. Thus the supply of scarce outputs or services provided by some categories of professionals like highly priced doctors or lawyers may be cut back in the face of an income ceiling. Quite often, their high incomes are earned only during a certain phase of their working lives and it is only a few who reach such heights. Compared to

salary earners, many in the self-employed category cannot count on assured and steadily rising incomes, given the period of waiting and the risks they must take.

5.10 In this report, we are not proposing any freeze in wages. On the contrary, we believe that wages should gradually increase by obtaining an appropriate share in the growth of gross national product and productivity. Such a growth should take place in a smooth and orderly fashion and not as a result of continuing tension and trials of strength. This should therefore be planned for, and such planning would involve a certain measure of restraint. For such restraint to be generally accepted, we think it is necessary that those earning higher incomes should also be subjected to restraint.

#### Restraint on dividends

5.11 One such restraint should be on the distribution of dividends. Obviously, the limitation should not be expressed in terms of a percentage of paid up share capital. The amount distributed as dividend should be limited to a percentage of equity capital and reserves which together represent the investment of the shareholders. This percentage may be fixed at two or three per cent below the rate of earning regarded as necessary to attract enough investment to secure the growth of the industry. Thus, if 12 per cent of capital and reserves is regarded as an appropriate return for the cement industry, the total distribution as dividend should be limited to eight or nine per cent of net worth. This would incidentally strengthen the capacity of the industry to grow through the use of internal resources.

#### Other restrictions

5.12 In theory, one could also argue in favour of an absolute and integrated ceiling on income, expenditure and property, whether rural or urban property, wealth earned or unearned income. But in present circumstances, and having regard to the constraints of parliamentary democracy, the pattern of Centre-State relationships and complex legal procedures, there would be immense practical difficulties. Existing rates of taxation have already sought to discourage accumulation of wealth or income beyond a point, particularly if the total taxable income is derived wholly from wealth and investment. There is also a general belief that high incidence of taxation tends to result in greater non-compliance. Nevertheless, the primary instrument for regulating non-salary incomes is still the fiscal mechanism, and existing tax administration must continue to be tightened and loopholes plugged so as to enforce greater compliance. Some of the measures that can be examined in this connection are; eliminating or drastically curtailing the items eligible for tax exemption; treating benami transactions, except certain legitimate ones such as a bank holding assets on behalf of a constituent, in such a manner that all title to property may legally vest in the person in whose names it has been registered; and extension of direct taxes to the agricultural sector which is largely outside the tax net at present.

5.13 Another line of approach is of restricting the means through which incomes are generated. Thus, for example, land ceilings if adequately enforced act as an indirect instrument of control over high incomes. Once the area of land a person can own is prescribed, a limit on income has been set indirectly although, depending upon the cropping pattern and related factors, great variations would still be possible. The same logic applies to urban property.

5.14 In addition to taxation, therefore, comprehensive enforcement of land reforms and ceilings on urban and rural property will enable the government to keep high incomes of a significant proportion of the self-employed under control. In the industrial sector, also, a similar approach can be tried out. The new Industrial Policy, which seeks to limit capacity creation in respect of items that can be produced by the small and cottage industry, is in fact a step in this direction. Incomes of the self employed, not being amenable to adequate control or regulation, should also continue to be subjected to strict surveillance for securing fuller compliance with taxation and other measures.

#### Top salary incomes

5.15 Let us now turn to the problem of top salaries. Though there is a wide variety of organisations in India paying high salaries, most of them would fall into one of the three major categories; private sector companies, public sector enterprises and government. The basic question is whether the top salary peaks in these different types of organisations need any change or readjustment in view of the government's declared objective of reducing income disparities. Since all salaries, unlike incomes of the self-employed, are determined through administrative processes, there is no particular problem in enforcing a ceiling on salaries. However, administrative feasibility is not by itself a sufficient reason for imposing a ceiling on salaries. The issue that needs to be examined is whether any modification in the existing levels and structure of top salaries is called for on grounds of equity and efficiency.

5.16 The major considerations to be borne in mind while debating this issue are the following : The basic stock of high level manpower which rise to the top in the three types of organisations flow from more or less similar sources. Their backgrounds, educational attainments and talents have much in common. Firstly, therefore, the disparities between the top salaries offered by the different segments of the organised sector should be such that there is a reasonably good match between the requirements of the jobs in different organisations and the supply of top personnel available and willing to fill them. For instance, if top salaries are made uniform across the board, an adequate supply of the proper men may not be forthcoming to perform leadership roles in organisations which, by their very nature, entail greater risks and insecurity and onerous conditions of work. Appropriate salary differentials (inter - sectoral) are therefore, necessary in order to reflect the differences in the nature of work involved.

5.17 Secondly, the levels of top salaries in each sector should be such that a

reasonable differential exists between the emoluments of the top personnel and those of the men who work under them. Traditionally, these intra-sectoral differentials have been unduly wide and more than could be justified on performance grounds. It is only in recent years that some reduction in this disparity has taken place, chiefly through the process of levelling up. The best example is government where the differential between the bottom and top salaries has been narrowed down by raising salary levels at the bottom and keeping the top nominal salaries where they were. While it is human to desire lesser disparity, differentials on account of skills and other motivations are also important. Our attempt should be to go towards narrowing the wider disparities. What the appropriate differential should be is a debatable issue and no precise criteria could be offered to settle the matter to everyone's satisfaction. While no particular sanctity can be attached to the ratio of 1:20 or 1 : 10 between the minimum and maximum, nor is it based on any scientific analysis, the current ideal of 1 : 10 cannot be considered unreasonable, particularly when a large number of people do not consider it to be so.

5.18 It is in this context that a third and equity related consideration assumes special significance. Salary peaks in the critical segments of the organised sector that we have discussed above have "high visibility" and set the patterns for others to emulate. When we are asking organised labour to moderate their demands and conduct collective bargaining within specified constraints\*, it is but appropriate that we attempt a rationalisation of the top salary structures also which in turn might involve a reduction in total emoluments in a few specific cases.

5.19 While top civil servants in government and senior managers in the private sector both play leadership roles in their respective organisations, there are noticeable differences in the responsibilities and risks they must assume and the conditions and environments in which they operate. Members of the elite Services in Government can hope to rise steadily in their careers at least for a good part of their working lives. Industrial managers cannot count on such progress. While the relatively high mobility in the private sector may enable some of them to reach high salary peaks at a much younger age than in government service, they have to be ready to move up and down with the trends in their business. Individual accountability and consequence of performance are normally greater in private industry than in government. When private sector managers take charge of new ventures or agree to turn around companies in distress, they risk their future. There is no question of keeping a lien on their previous job or returning to their parent organisation. As a result, there is much less job security in industry than in government. Government service is associated with greater power and prestige whereas industry can provide only monetary rewards and perquisites.

5.20 On the other hand, the topmost levels in the civil services have to deal with the complexity of the social and economic system. In today's world the functions of government are fast growing in size and importance because many undertakings and issues relating to development can only be handled by the

government or with its support. As has been observed\* :

"All developing countries which are facing the challenge of accelerating economic and social development, with the consequent responsibility for providing the necessary human and material infrastructure, depend critically in this regard on the capability, motivation and performance of the personnel in the public services."

5.21 In several respects, therefore, the nature and extent of the risks, responsibilities and commitments personnel have to live with differ between government and private industry. The top salaries of these two categories should reflect these differences.

5.22 Besides, a new factor in the economy has emerged since independence. The private sector now forms a relatively small segment of the total organised sector. Out of a total employment of 24.83 million in the organised sector, private sector employs only 9.83 million (Table 1). In terms of investment, turnover, profits, or employment, the top few public sector enterprises do not compare unfavourably with the largest companies in the private sector. If, therefore, enterprises like Indian Oil Corporation, Bharat Heavy Electricals and Hindustan Steel can be managed by chief executives drawing Rs.4,000 per month at the maximum of their scale and enjoying fewer fringe benefits compared to the private sector, the existing differentials in emoluments do appear questionable.

5.23 The differential that exists today between the post-tax emoluments (salaries plus perquisites) of our top civil servants and top private sector senior managers is of a very sizeable order (Table 12). This does not take into account the emoluments drawn by Ministers and certain other dignitaries in government (Table 13). While it is difficult to be categorical about the adequacy or otherwise of this differential, in view of the circumstances prevailing in the country today, and the salary differentials which have evolved in the more developed but socialist oriented countries, we are inclined to believe that there is a case for narrowing the existing gap.

#### Top civil servants' salaries

5.24 Salaries of government servants and those employed in the public sector are already subject to considerable restraint. This is mainly because of the fact that, by and large, they have not been raised much for a considerable time, and no

---

\* United Nations : Development Administration, Current Approaches and Trends in Public Administration for National Development, New York 1975, page 74.

dearness allowances have been given to those in receipt of more than Rs. 2400 per month. Because of this continuing erosion in higher salaries (Table 14 and 15), the ratio between the post-tax salary income of the lowest and the highest in these sectors is now around 1 : 9. However, if perquisites of government servants were taken into account, this range might widen slightly. On the other hand, higher salaries and perquisites accrue generally to older persons with greater length of service. When comparisons are made between the more experienced persons in the lowest and the highest categories, it will be seen that the range is considerably narrowed. Thus, the differential is already a little narrower than what has been currently envisaged as the goal ten years hence. The question whether there should not be some upward revision of salaries in those ranges where no dearness allowance has been given during periods of high inflation, in order to continue to attract persons of the requisite calibre to these posts, needs examination. We recommend that this problem may be referred to the National Pay Commission, the early appointment of which we have recommended in the next chapter.

### Top managerial salaries

5.25 In the private sector, however, the differentials are wider mainly because, unlike the government sector, higher salaries have also been revised upwards from time to time following inflation. The differentials in after-tax emoluments vary from industry to industry, and sometimes go even upto 1 : 16 or so. Risks and uncertainties in entrepreneurial management, to which we referred earlier, being greater, and managerial talent of the requisite calibre being still relatively scarce, the differentials can be higher than in the government sector or the public sector. But they still need to be narrowed. This should be attempted by putting suitable limits on both salary and non-salary benefits.

5.26 High salaries in the private sector, are often supplemented by commissions and by tax-free or near tax-free benefits. We have come across a wide variety of compensations, both in cash and in kind, which in some cases go upto 150 per cent or more of the salary (Tables 10 and 11). These perquisites may include free furnished house, free use of car (or on token payment), provision of domestic servants, leave travel concession, vacation expenses including hotel expenses, accident and life insurance, free medical facilities, allowance for children's education, profit sharing bonus and shares, generous expense accounts, club memberships, liberal retirement benefits, and even food and recreation. \*

5.27 It appears that, because of progressive rates of taxation, there has been an increasing tendency to compensate executives through perquisites. Though several perquisites are taxed, yet there is a constant battle of wits between the law and the beneficiaries of the perquisites. Apart from pure legality, like the black incomes, there is also a segment of perquisites outside the system which occurs by incorrect classification of expenditure or through other means.

---

\* H. N. Atthreya : Executive Compensation in India, A Field Survey Research Report. Also see Table 10.

5.28 Perquisites provide an incentive for attaining executive posts which, apart from responsibility and status in office, also provide access to relatively scarce comforts and thereby accord a social status and a degree of exclusiveness. To some extent the need for such incentives can be accepted. The point really is one of norms. These must be such as not to attract the charge that company surpluses are thrown away in providing perks and amenities to their executives instead of being channelised into productive activities.

5.29 The perquisites assume importance in a policy for incomes not so much because of the number of beneficiaries involved or cost of such benefits but because of their potential for encouraging and making possible affluent and even ostentatious ways of living, as well as setting an aspiration level for a way of life quite out of step with the generally attainable standards of living even amongst the very limited number of senior salaried executives in the country. Further, generous retirement benefits reduce the need for current savings permitting thereby a higher level of consumption during service and after retirement. We think, therefore, that in any meaningful approach to the question of top salaries, the total value of perquisites received by or on behalf of an employee must be fully taken into account in determining the appropriate level of compensation. These should not normally exceed 25 per cent of basic pay. Even benefits like "expense accounts" which are presently non-taxable should be reported so that over a period of time data are available to enable some regulation of such benefits.

5.30 There is also at present some lack of uniformity in the treatment of perquisites for tax purposes, e.g., in the valuation of housing benefit. This distorts the real income of high salaried employees in different sectors and some rationalisation is called for in this regard. We, therefore, recommend that the method of valuation of perquisites for tax purposes should be uniform for all sectors.

5.31 Normally, there should also be a limit to the total of salary and commission and this limit should apply not only to Directors but others as well including employees of private registered companies. However, in order to prevent disruption and emergence of new abuses, the limit should not represent too drastic a change. Taking current circumstances into account, we think that Rs.6,000 per month for all new contracts would be a suitable limit for the next five years. Provision may have to be made for certain exceptional cases of high or rare skills such as oil exploration, haute cuisine, and expatriates whose services are essential. Some special arrangements will have to be made for this.

5.32 We consider that payment of commission as a mode of remuneration is an outdated concept and a hangover from the old managing agency system. It should, therefore, be phased out within the next three to five years. Simultaneously, a suitable system may be evolved for incentive payments for exceptional performance in the productive sector -- both private and public -- coupled with penalties for negative or unsuccessful performance.

5.33 We also think that individual fixation of salaries by government or other external authorities should be avoided because of the complex and varying situations in business and industry. In particular, differentials inter se among the higher paid employees of the private sector should be left to be settled through the normal process of negotiated contracts by the managements, subject only to the overall limits prescribed. Those who seriously violate the prescribed guidelines should be investigated by the concerned agencies in government and punished if valid explanations are not forthcoming. Such a system for monitoring and control will be more effective and less frustrating than the present system of getting prior approvals from the Company Law Board for all individual cases with the attendant delays and constraints on decision making.

#### Some special categories

5.34 Airline pilots and a few other categories draw high emoluments which are usually justified on the basis of international comparison and fear of migration of trained personnel. These arguments are partly valid and also have some weaknesses. There is no overall shortage of pilots and the number migrating abroad is less significant than the turn-over of other skilled categories, such as those in the engineering and medical fields. The international demand is also not too elastic to permit large scale migration. Further, higher pay abroad is not always the main factor in migration. The international transfer price is so high that adjustment in domestic emoluments may have little effect on the decision of intending migrants\*. We do recognise that pilots and other airlines personnel frequently travelling or living abroad have to be enabled to live without embarrassment among those with whom they may normally like to mix. But this is already provided for by suitable special allowances, which should be strictly limited to such needs.

5.35 We suggest that an inter-Ministerial study group may be formed to examine the question of integrated manpower planning for civil aviation and the Air Force on the one hand and the Shipping Companies and the Navy on the other and also to consider suitable emoluments for the abnormally high paid categories.

#### Tax-free salaries

5.36 A suggestion has been made that all employees should be given tax-free salaries which would show real differentials and facilitate enforcement of the desired ratio between minimum and maximum salary. This will also save effort in filing tax returns and in scrutinising them. In our view, the concept of tax-free salaries could only be applied to the organised sector and will, in any case, leave out the large bulk of employees in the unorganised sector. Even in the organised sector, it may be possible to administer the scheme smoothly only in Government. Moreover, tax laws change frequently; and while it would be so much simpler to disburse tax-free salaries, such a scheme will create a lot of working difficulties.

---

\* See also A.K. Das Gupta : A Theory of Wage Policy, 1976, pages 58-61.



### Limitation of total income

5.37 In the ultimate analysis, the only method of trying to enforce a ceiling on all types of incomes, salary or non-salary, is by 100 per cent personal income-tax on the excess over the ceiling. However, recent experience has shown that this does not work. Agricultural incomes continue to be totally exempt from all personal taxation; many other incomes, though legally subject to tax, are not brought within the tax net. Moreover, the threat of a limit on incomes will be a disincentive to work and enterprise. In order to avoid this dilemma, at least in part, we recommend imposing a ceiling not on income but on the two main purposes for which incomes are sought, namely, consumption and private investment. This can be achieved by imposing a high penalty over a certain limit of total income from all sources including agriculture. An individual may be allowed to opt out of paying such a penalty by depositing the whole of the excess income with the government into a special account. This special account will bear interest at a rate to be determined by government from time to time. Government will have use of these funds, but they will remain the property of the individual and will pass on to his legal heirs after his death. The individual will also have the freedom to withdraw any desired amount at any time, but the amount so withdrawn would be added to that year's income and taxed. Provision may have to be made for withdrawing from the fund for certain approved purposes, such as investment in own business or other desired lines. But these can be worked out after some experience is gained.

5.38 An alternative to depositing the excess income with the government into a special account will be to have the income earners channelise the excess income into approved forms of saving which may be prescribed by the government from time to time. Here again, whenever such savings are withdrawn they would be treated as part of the taxable income of that year.

5.39 The advantage of such a scheme is that it would not erode the incentive for work and enterprise to the same degree as personal taxation. The amounts in the special account will always be available in later life or in different circumstances. Another advantage would be that what is earned beyond the limit would automatically become available for public investment. Incidentally, the suggested scheme would solve the difficult problem of high incomes which are fluctuating or are of a limited duration, like that of film stars, musicians, surgeons, writers of best-sellers and so on. They can deposit any excess over the ceiling with the government, and draw what they like in subsequent years when their incomes are low.

5.40 The alternative is to have a ceiling on incomes and impose penal marginal tax rates without any facility for deduction of savings. As both these can be regarded as dysfunctional in terms of their adverse impact on incentives and savings, it would be better to give to high income earners the option of stepping up their savings and reducing current consumption. The resultant savings must however be channelised into approved forms which may aid public investment eventually.

**5.41 Our colleague Shri Arvind Buch has expressed the following further views in the matter :**

"It is true that the Study Group has examined the question of top incomes with utmost care. But while the measures recommended may assist to a limited extent in dealing with the question of wide disparities between the lowest and the highest income, these do not, in my opinion, go far enough.

The existing company law has failed to curb the growth of high incomes. Similarly fiscal measures like estate duty which has been in operation for a quarter century, have not brought about the desired result. The affluent self-employed professionals continue to accumulate huge wealth and are known to be adopting various methods of tax evasion on a wide scale. Drastic measures, both statutory and non-statutory, will therefore have to be adopted to restrict the cancerous growth of top incomes.

There is urgent need of applying lower rates of interest and dividends above specified limits in order that some restraint may be put on those multiplying their wealth through unearned income. Among other measures that can be suggested are a heavy cut on perquisites and commissions; a ceiling of Rs.30,000 on gratuity or other retirement benefits not covered under the Gratuity Act; extension of the Government servants pensionary ceiling of Rs.1000 p.m. to all sectors; and an overall cumulative ceiling of Rs.30,000 on various forms of advances like those for house building and purchase of cars which carry subsidised rate of interest. These steps should be applied equally to Government, the public sector and the private sector.

As regards the exorbitant fees charged by professionals it needs to be emphasised that, wherever possible, these should be subjected to ceilings through legal or fiscal means. Such ceilings may in practice be difficult to enforce for highly personalised services like doctors and advocates. But the cooperation of appropriate bodies like the Indian Medical Council, Bar Associations and the High Courts can be sought in prescribing and enforcing reasonable scales of fees for various categories. Similarly, suitable norms should be laid down by the Department of Company Affairs for audit work undertaken by Chartered Accountants. To begin with, these restrictions should be applied in respect of payments made from the public exchequer.

The wide disparity between the proposed national minimum wage and top incomes can be narrowed only if maximum salary and income limits are prescribed. If this is done, salaries in the so called high wage islands in any sector will seek their own level. It is essential that such limits are prescribed at the pre-tax stage. Paying higher salaries and reducing them by income-tax has no meaning. It is therefore desirable that all salaries should be on a tax free basis. The maximum limit of tax free salary should be fixed at Rs.2500. This limit should be made applicable to all sectors, including M. Ps and Ministers and persons holding similar position and status.

Even though salaries may not be taxed, it should be mandatory for individuals having income above the existing exemption limit to submit income-tax returns in order to curb incomes through other sources and to enforce economic discipline. The concept of household income should be applied for income-tax purposes also and higher exemption limit provided for income taxed on a household basis."

#### Relationship between the minimum and maximum wages

5.42 In Chapter III we have recommended the adoption of a national minimum wage below which no employment will be permitted. As already noted, this is likely to apply only to the lowest of employments and elsewhere the de facto minimum will continue to be higher. A concrete relationship between minimum and maximum wages is, therefore, meaningful and practicable to establish only intra-sectorally. In the major part of the organised sector, namely, the public sector, this relationship has already been more or less established nearer to a particular ratio (1 : 10) which, as mentioned in para 5.17, is currently considered reasonable. We have also suggested measures to bring the rest of the organised sector closer to this pattern.

5.43 In Chapter IV, we have also suggested, as a desirable and practicable target, raising the bottom 30 per cent of the population in rural areas to the next level through a policy package. When this is achieved, even the inter-sectoral ratio between the minimum and the maximum wages will improve considerably over time. However, in the short run, when we consider the vast majority of the working population who have little income worth the name and are outside the organised sector, against the very small numbers at the highest income levels both in the rural and urban sectors, it is futile to establish a minimum-maximum relationship in the national perspective.

#### Relationship between the maximum income and maximum wages

5.44 This also is one of the questions specifically posed to us. For this purpose 'wages' obviously includes salaries, although some of the highest 'wages' are drawn by people like airline pilots and others categorised as 'workmen'. Top salaries in government and in public sector are already fixed. We have also proposed limits of general applicability for top managers in the private sector.

5.45 But this is only one end of the scale. The other, 'maximum income', is related to non-salary incomes. Fiscal measures with all their shortcomings continue to be the primary instrument for regulating it. With improved implementation of the existing fiscal mechanism and the scheme proposed by us in paragraphs 5.37-38, there will be a reasonable restraint on consumption and private investment. It is therefore neither practicable nor necessary to consider imposing a ceiling as such on the generation of incomes. No direct relationship between maximum income and maximum wages need be established.

## Chapter VI

### WAGES IN THE ORGANISED SECTOR

6.1 The preamble to the Resolution\* setting up the Study Group refers to serious distortions in the wage structure of employees in the public and organised private sector and the need for rationalisation thereof. These distortions are stated to be largely the result of ad hoc approach followed so far in periodical revision of emoluments. Actually, there is a variety of factors involved such as the widely differing formulae for paying dearness allowance; lack of systematic job evaluation; the influence of localised collective bargaining; differences in productivity and profitability where earnings are often related to capacity to pay; and so on. Occasionally, affluent units where labour forms a low element of cost have tended to agree to abnormally high wage levels.

#### The nature of wage differentials and disparities

6.2 In general, some wage differentials are legitimate and desirable; others unjustified and anomalous. Internally, there is the differential between the lowest and the highest wages in a unit. This may depend on the size of the organisation, the degree of sophistication in technology, the supervisory structure and similar considerations. But the range should be wide enough to promote acquisition of skills and qualities required for aspiring to the highest pay group. Then there are differentials between different kinds of jobs within the organisation and these generally relate to job performance requirements. Since such differentials relate to skill levels, arduousness of work, level of responsibility, risks or hazards etc., they ordinarily need correction only to the extent that they are inconsistent with the organisational structure or if they do not provide enough incentive for advancement and acquiring higher skills. Externally, disparities in wage levels may exist between different units, industries or sectors. Some of these may legitimately exist as, for example, between a capital intensive industry like petrochemicals and a labour intensive one like textiles; between a small scale industry and a large scale one. In some cases they may be justified for policy reasons. But these have to be within reasonable limits. Actually the range of existing inter-industry and inter-sector disparities in employee earnings appears too wide (Table 16).

6.3 The main problem arises when there are wide disparities in wage levels for doing the same or similar kind of work. This is frustrating and frequently the cause of unrest. When there is a situation in which a sweeper in a steel plant gets Rs. 465 a month, a sweeper in a steel using factory existing side by side draws Rs. 350 a month and, may be, another employed by the municipality in the same town gets barely Rs. 150 a month, this will naturally lead to discontent. The bewildering variety of wage levels at which different employers in the public and private sectors

\* Appendix A

remunerate certain categories having common skills is illustrated in Table 17. Another major anomaly relates to cases where people with higher qualifications and specialist skills receive less emoluments than others who possess ordinary skills or no particular skill. For example, some class IV categories are paid more than school teachers; junior Bank officers receive higher remuneration than the Chief Medical Officer of a district or a senior university lecturer.

### The need for rationalisation

6.4 Ideally, a policy attempting to rationalise the existing wage structure would consist primarily of (1) evolving reasonable wage differentials between different kinds of job, (2) narrowing down wage disparities in respect of jobs requiring the same or similar skills, and (3) a mechanism for future adjustment of wages with reference to changes in economic data. But the determination of a scientifically conceived, homogeneous national wage structure is very difficult. We are not beginning with a clean slate and burden of history is with us. Disparities, anomalies and irrationalities exist and have come to be regarded as 'rights'. Further, there is no reasonable method of determining what should be the absolute level of wage for each category of workers and what is a right differential between one category of workers and another.

6.5 Even if a national wage structure is determined, which is doubtful, or the historically determined structure accepted, which is improbable, several adjustments in wages or earnings are required from time to time. These are, for instance:

- (a) A periodic increment in earnings which is merely related to time, and which has become part of our culture so to say.
- (b) Some protection of earnings against changes in the value of money.
- (c) A correction for changes in the productivity of workers which may take various shapes.
- (d) A correction in the relative wages of one set of workers, with certain degree of skill and certain onerousness of work, relative to the much higher wage of another set of similar workers with the same degree of skill and onerousness of work.
- (e) A correction in the relative wages of one set of workers with certain degrees of skill and onerousness of work, relative to a much higher wage of another set of dissimilar workers with different degrees of skill and onerousness of work.
- (f) A set of corrections to reduce the disparities across industries/sectors and within industries/sectors.

6.6 We have accordingly tried to provide appropriate guidelines and principles (a) to get such corrections and adjustments within the framework of collective bargaining, (b) to reduce disparities and (c) to raise gradually the areas of unduly depressed wages. We only suggest them as the first steps.

### The government sector

6.7 The Central and State Governments account for the bulk (over eight million) of the total employment in the organised sector. There are wide disparities in the emoluments of employees not only between the Central and State Governments, but also among the State Governments themselves, even though the nature of jobs of many categories is similar. The inter-state differences in the emoluments of the lowest paid employees are illustrated in Table 18. There is also a sizeable chunk (about 5.6 million) of employees serving under quasi-government institutions and local bodies. We have not been able to gather data regarding these, but it is known that in many cases the wage levels are lower than those of the State Government employees.

6.8 The Sixth Finance Commission had commented on the existing wage disparities in scales of pay and dearness allowance between the State and Central Government employees and among the States themselves and had said that the issue needed examination in the context of an overall national policy on wages and incomes. While the Commission disfavoured any attempt at standardisation of pay and allowances, it recognised that

"very wide disparities in emoluments at the lower levels, where duties and qualifications are easily comparable, are bound to generate discontent and impair maintenance of reasonable standards of efficiency in administration."\*

It identified the following common and numerically large categories of such posts and made necessary allowance to enable States having low rates of pay and allowances to be brought up to the all-States average in respect of these categories:

Peon ; Lower Division Clerk; Upper Division Clerk; Police Constable; Head Constable; Trained Primary School Teacher; Revenue Inspector; Trained Graduate Teacher; Naib/Deputy Tehsildar; Tehsildar; and Deputy Collector/Sub-Divisional Officer.

6.9 It would be unrealistic, and indeed against the federal concept, to think in terms of complete standardisation of emoluments of Central and State Government employees. At the same time, continuance of marked difference in emoluments of the same or similar categories is not desirable. In State capitals and many other places we have Central Government employees getting more than their counterparts of the State Government engaged on the same kind of work. Clearly, therefore, while standardisation is not practicable, some harmonisation is necessary in respect of these common categories.

---

\* Report of the Finance Commission, 1973, Chapter X.

6.10 There are two important parameters with reference to which a long-term policy may be determined. There is first, the minimum wage determined by the Third Pay Commission in respect of Central Government employees. There is a good case for adopting this for the State Government employees also. Secondly, the concept of all-States average for certain common categories identified by the Sixth Finance Commission. Adjustments will be necessary to the extent the two norms conflict with each other.

6.11 The minimum wage of Third Pay Commission may be commended to States for adoption within about five years. The next Finance Commission would then take into account the States' requirements arising from this as well as any consequential changes. So far as the common categories at lower levels are concerned, we suggest that model scales be worked out by a National Pay Commission which should be appointed soon in consultation with States. These can then be adopted by such of the States as have scales below the suggested model, and would not prevent others from continuing the prevalent higher scales. In respect of categories common to the States and the Centre, such as Peon, Lower/Upper Division Clerk, Driver and Stenographer, the proposed National Pay Commission may be asked to evolve scales suitable for adoption nationally in the entire government sector.

6.12 In Chapter VII we have suggested a scheme of dearness allowance to be adopted across the board in the entire organised sector. That will, however, take care of compensating employees against price rise of mostly the essential items of expenditure. In order to minimise future disparities and distortions, as well as to prevent salary erosion unduly, it is desirable that the process of salary revision in the government sector should take place oftener than it does now. For this purpose we suggest that Pay Commissions or Committees may normally be appointed every five years or so. Conditions of service other than pay and allowances need, however, be reviewed only once in ten years. सत्यमेव जयते

6.13 Our approach towards remuneration levels of State Government employees applies in principle also to employees of quasi-government organisations and local bodies. But we realise that in their case the problem of resources and inter-relationship with government employees is much more complex and the matter will have to be left to individual States to tackle in the light of their special needs and circumstances.

### Public sector undertakings

6.14 The public sector undertakings and financial institutions under the Central Government account for about 2.5 million employees. Disparities exist in the emoluments of certain common categories between the Central Government and some of these undertakings. To some extent these can be explained by differing work environment and nature of jobs. But this does not apply to employees in departmental undertakings like Ordnance Factories, Railways and P&T factories engaged on production or on work comparable to that in some of the public sector undertakings.

The payment of bonus as ex-gratia in the latter widens the difference. There are also disparities among the public sector units themselves. Some follow more or less the government pattern. The majority have evolved their own wage scales which are not too widely divergent. In certain areas such as the Bangalore group of industries, there has been systematic effort at some kind of standardisation. There are, again, 'high wage islands' like the Shipping and Air Corporations and the financial Institutions. In multi-unit undertakings with locations in different regions, the tendency for dispersed units to adopt the headquarters pattern of wages has sometimes resulted in repercussions in the local labour market.

6.15 A suggestion has been made that standard pay scales should generally prevail in the entire public sector including the departmental undertakings. The idea has much merit. The existence of high wage areas within the public sector or wide differences in minimum wage levels violate the doctrine of comparability. The public sector employees, as also those of the departmental undertakings, tend to regard themselves as employed ultimately by the same government and not by different industries. So it would be in order to aim at some uniformity. After all, standardised pay scales have been evolved for government employees when the complexity and variety of jobs is not inconsiderable. Some years back, when general insurance was nationalised, it was found possible to evolve standard pay scales in replacement of a bedlam of wage patterns pertaining to more than a hundred private companies. In theory, a Pay Commission could be appointed to determine standard pay structure for the public sector and the departmental undertakings. But this in practice may be found objectionable as it impinges on the process of collective bargaining and the concept of autonomy of public sector units.

6.16 In regard to the problem of industrial employees in government engaged on work similar to that in public sector undertakings, we suggest the appointment of a Pay Committee to go into the emoluments and service conditions of such employees after comparing them in all respects with corresponding employees in the public and private sectors. Necessary corrections can then be made through appropriate revision of pay scales or suitable incentive payments.

6.17 In the absence of necessary data, we have not specifically dealt with public sector undertakings under the various State Governments. But we believe the problems involved and the possible solutions will in all likelihood be no different.

#### Organised private sector

6.18 Wage differentials and disparities in the organised private sector, employing about 6.8 million people, present a similar picture. There are inter-region and inter-industry differentials some of which can be explained in terms of differences in cost of living, productivity, shortage of particular skills, capital intensiveness and such factors. The rest are due to purely historical processes. Taking the private organised sector as an entity, the per capita wage in it is roughly three to four times the per capita wage in the rest of the economy.



6.19 No doubt various factors have to play a part in the determination of wages and differentials, such as skills and the investment involved in their formation, incentives required to encourage workers to gain higher skills, arduousness of work, level of responsibility, risks and dangers involved, etc. But, by and large, they remain in the realm of the qualitative and there is no method of measuring these factors with any degree of scientific precision so as to be universally applicable and generally acceptable. Nevertheless, they are influencing factors in the process of collective bargaining which determines wages and differentials from time to time.

6.20 Our considered view is that the determination of wages and relativities including differentials for skills, seniority, output and performance should largely be left to collective bargaining subject only to certain broad norms and guidelines which are discussed later. In part, this conclusion is no more than a recognition of the present reality. Unless there is a revolutionary change in the existing political and economic structure in our country, we do not think a standardised wage structure consisting of a large spectrum of grades extending from the unskilled minimum wage level to the highest technical, managerial and administrative personnel can at all be introduced successfully. Indeed, we do not see any other acceptable method which can replace collective bargaining in the case of workers in the organised private sector.

6.21 Having said that, it is equally clear that ways and means have to be found which will make the operation of the factors mentioned above more satisfactory and just. In the existing situation, one has the feeling that the bargaining strength of the moment is apt to over-ride all other factors. In a vital or highly profitable industry, where workers are well-organised, an industrial dispute on wages may often immobilise community life at large. This can happen regardless of how well-paid the employees already are compared to the rest. Moreover, increases granted in one sector often lead to demands in others for similar increases, resulting in turn in pressures from the original group to restore differentials. Where there are more than one trade unions, such issues can lead to an impasse. In any policy aiming at some rationalisation of wage structures, the acceptance of norms and guidelines within which future wage settlements would be negotiated is therefore implicit. Otherwise, the process of distortion continues.

#### Factors affecting wage increases

6.22 The principle of 'like pay for like work' is highly relevant in this context. But while it has a universal appeal and lip service is paid to it by every one, in practice one notices its almost total absence, it being invoked only whenever it is convenient. There are many reasons for this state of affairs. Among them is the attempt to relate wages, directly or indirectly, to the prosperity and profitability of a particular enterprise. By definition, the criterion of ability to pay straightaway offends against this principle. Another factor is the widespread prevalence of incremental scales which again, by definition, puts aside the principle of like pay for like work.

6.23 Let us take incremental grades first. We have found that anything between 2.5 and 5.5 per cent increase in the annual wage bill in government as well as non-government organisations is accounted by the prevalence of longish pay scales. This part of the increase in wage bills is usually ignored when wage revisions are undertaken. There is no valid reason why this should be so.

6.24 Some progression may be justified on account of improvement in the quality of work as a person acquires experience. At lowest levels, a long scale may also have its merit if opportunities for promotion are limited and prolonged stagnation is to be avoided. But, generally speaking, rationalisation requires very considerable shortening of the existing scales and eliminating them where possible at the higher middle and top levels. Experience of industry also is that pressures for promotion on grounds of stagnation often arise well before the end of the scale is reached.

6.25 The profitability criterion, apart from reducing the cherished principle of like pay for like work to a non-principle, is a factor contributing to inter-unit disparities. In a system in which the profits of certain undertakings are determined largely by government policies or where higher wage costs can simply be passed on to the consumer or the general public, the ability to pay cannot be regarded as a valid criterion for determining wage levels and differentials.

#### Suggested parameters for wage determination

6.26 What then should be the parameters within which wage determination, in the organised private sector as well as in the public sector, should be left to collective bargaining? To begin with, the spread between the highest and the lowest wage covered by collective bargaining should be such as to enable a person at the lowest rung to draw four to five times the minimum wage when he gets to the top. Here again, the individual needs of skill levels or variety will differ from unit to unit, but if a definite ratio is aimed at, some differentials may have to be slightly widened and others somewhat narrowed.

6.27 Rationalisation of wage for broadly similar classes of work can in theory be achieved by standardisation of occupations based on scientific job evaluation which would analyse the effort input and the skill requirements of different jobs. Job evaluation has, however, been found full of working difficulties and broad agreement on the principles of job evaluation through bilateral agreements has been found possible only in a few large well organised industries. Also, it has not been very successful in setting different claims on account of the subjective element involved in it. Moreover, application of job evaluation techniques requires highly professional staff not only to introduce the scheme but also to administer it as a continuing measure. On pragmatic grounds, therefore, these relativities will also have to be left to collective bargaining for the present, subject to the broad guideline that gaps in the wages of persons having the same or similar skills in leading industries in the same region must be narrowed or eliminated altogether. An exception would be where males and females are paid different wages on the basis of recognised differences in output or

physical capacity. Job evaluation techniques, where practicable, and if an outside expert agency can be mutually agreed upon, may be applied prior to negotiating wage settlements. The extension of job evaluation towards a National Classification of jobs should be encouraged and progressively adopted by general consensus.

6.28 Jobs requiring scarce skills will naturally merit higher differentials in order to attract suitable persons with the requisite skills. But while determining differentials, realistic comparisons should be made on the basis of the total pay packet including non-wage benefits like retirement benefits, subsidised housing and transport, paid leave, travel and medical facilities, etc., to the extent quantifiable in money terms.

6.29 Another guideline will be that, in future wage settlements, units having relatively low wages should be enabled to come up faster than those in which employees are already in receipt of wages far above the majority of enterprises. Further, in areas where wage levels are abnormally high, suitable scales comparable to those prevalent in the bulk of the public sector may be evolved and made applicable to fresh entrants in various categories, the excess pay of the existing employees being treated as personal to them. This need not be objected to on grounds of equal pay for equal work, since even now there are sizeable differences between the emoluments of those at the lower and higher ends of a particular grade, although they hold the same jobs. There are also precedents in which pay scales have been revised downwards and made applicable to fresh entrants, at the same time protecting the emoluments drawn by existing employees.

6.30 We also suggest that, as a general rule, wage settlements should ordinarily be operative for a minimum period of 4-5 years, both in the private and public sectors. In the interest of gradual rationalisation, it is necessary that some sort of uniformity be aimed at in this regard.

#### Norms for increase in wage levels

6.31 We now come to the vital question of the basic norm for overall increases in wage levels each time a revised wage settlement is negotiated. In developed countries, wage policy has generally taken the form of guidelines linking money wages to productivity increases in the economy. In India, no uniform basis has been adopted, and wage revisions are effected with reference to profitability, productivity, increases in cost of living, or merely respective bargaining strength, or a combination of any of these factors. We have ruled out earlier the criterion of profitability. We have recommended in Chapter VII a universally applicable system of dearness allowance which would compensate for increases in costs of the basic minimum needs of consumption. This element, therefore, should also have ordinarily no influence in wage revisions in the future. These have, therefore, to be essentially linked with increases in productivity.

6.32 Some economists hold the view that a policy of linking wages to productivity would be logical only in a 'mature' economy where it would give labour its due

share in a scheme of equitable distribution, and that in our conditions it would be irrational not to devote available surpluses to absorption of the unemployed. In other words, improvement in real wages of workers already employed would be at the cost of employment of the unemployed. It is also held that even if distributional equity is accepted as a criterion, it cannot justify enhancement of wages if this increases the gap between organised labour and others.

6.33 On the other hand, the consensus of labour economists is in favour of linking wages to productivity. The Fifth Plan had also called for increases in wages being closely correlated with increases in productivity. In our view, the principle that in a developing economy workers must have their due share in the benefits of growth is a sound one, and not irreconcilable with the needs of development. The fear that upward wage revisions linked to productivity might result in price increases also appears unfounded. According to the International Labour Organisation,

"when wages per worker (i.e. the general wage level) rise at the same rate as output per worker (i.e. overall labour productivity) total wages increase at the same pace as total output. Also wage cost per unit of output remains constant, so that the overall price level need not rise on account of wage increases."\*

What is necessary is to reconcile the requirements of industrial relations and distributive justice with those of economic growth, and to balance the rights of collective bargaining against the compulsions of rationalising wage structures.

6.34 In adopting a productivity-linked norm, we have first to consider how labour productivity is to be defined and whether such a norm can be universal or related to productivity growth in individual units. One snag in attempting to link wages with the productivity growth of individual units or industries is

".....that differential rates of productivity growth are largely the result of technological and economic circumstances, that they therefore do not on the whole reflect differences in the contribution of employees to production.....".\*\*

The concept can, however, generally be used with reference to the rate of growth of industry as a whole, i.e. the aggregate product of industry in relation to the aggregate labour employed. Periodical revision of wages in this manner would enable the wage earners to get a share of benefits arising from economic progress.

6.35 In sectors such as the government services where it is difficult or impossible to measure productivity or which are engaged in provision of services, the rate of growth of national productivity should be taken into account. But where productivity is less difficult to measure, as in most of the industrial sector, wage

---

\*I.L.O: Prices, Wages and Incomes Policies in Industrialised Market Economies - Geneva, 1966, page 115.

\*\* Ibid, pages 126-127.

increases should be governed by the overall rate of growth in productivity in the industry, disaggregated by suitable groups of industries, on the basis of homogeneity or otherwise. In doing so, care should be taken that wide differences do not again emerge by recognising too many groups. The degree of disaggregation would be recommended from time to time by the Bureau of Incomes and Prices, the setting up of which we have proposed later.

6.36 A uniform rate of growth for wage revisions will, however, introduce an element of rigidity. Uniform pay increases based on a growth norm, being the average for the industry as a whole, would be unfair both in the case of weak units lagging much below the national norm as well as of those where productivity is well above it. There should be sufficient flexibility so that, on the one hand, a crippling burden is not placed on the weaker units and, on the other, workers do not get too meagre a share in the higher productivity of more successful units. We suggest that the purpose can be achieved by providing that the permissible rate of increase should be between the mean deviation limits above and below the average rate of productivity growth. In groups of industries where productivity is below the national norm, the permissible range will be between the mean deviation limit and the national norm which will act as the ceiling rate of increase. Similarly, in groups where the productivity has been higher than the national norm, the permissible range will be between their mean deviation limit and the national norm which will act as the floor. It will be obvious that if the proposed formula of the mean deviation limit on either side of the average productivity line is followed, it will provide adequate flexibility.

6.37 The range of productivity norm will have to be determined by the proposed Bureau of Incomes and Prices and notified every year, based on the moving average of the preceding four to five years depending on the period for which the new wage settlements will be operated.

6.38 The guideline for wage increase will apply to the increase in the total wage bill of a unit inclusive of allowances and fringe benefits. However, as mentioned earlier, the increase in the wage bill which has occurred due to incremental scales since the last settlement must be set off against the overall permissible increase according to the guideline. The actual spread of the increase at different levels or groups of the wage structure within each organisation will be determined by collective bargaining. The percentage benefit may vary from group to group due to local factors such as scarcity of skills or correcting earlier distortions but subject to the over-all increase being restricted to the prescribed norm range. All wage agreements will have effect from a prospective date in future.

6.39 If collective bargaining for wage revision in high wage areas adopts the same norm as is generally made applicable, the result will be not merely perpetuating the wide disparities but causing further distortions in the wage structures. For instance, some categories in the public and private sectors are already paid twice

or thrice the emoluments which their less fortunate counterparts receive elsewhere in the organised sector. In order that existing disparities are not perpetuated or further widened, there has to be a further guideline for 'high wage islands' allowing for a lower rate of growth than elsewhere in the industry. This may mean, as earlier suggested, that in some cases revised wage scales may become necessary, the emoluments in excess of such revised scales being treated as personal pay for existing employees.

6.40 For identifying high wage areas for the present purpose, some rough and ready criterion may be applied in relation to the deviation from average monthly earnings and emoluments at the lowest level in each sector.

6.41 The payment of overtime is believed to have assumed serious proportions in many public and private sector undertakings, as in some government organisations. In some cases, the payment of overtime has been made systematic by bilateral agreements. As excessive overtime can have the effect of distorting the wage structure and even reducing employment, we suggest that, as far as possible, overtime payment should be carefully adjusted to needs and should not be allowed to become systematic.

#### Machinery for implementation

6.42 The mechanism that we suggest for continuous review of relevant data and to determine each year the guidelines for the industry or group of industries is a permanent non-statutory body called the 'Bureau of Incomes and Prices', the composition and functions of which are given in Chapter XI. The guidelines recommended by the Bureau will, on acceptance by Government, regulate all wage settlements through collective bargaining. Authorities concerned with the determination of wages in industry through wage awards etc. will similarly be required to conform to the guidelines notified. For monitoring implementation of the guidelines, an adequate reporting system should be devised. This will be supplemented by wide publicity so that even without legal compulsion, defaults would be brought to notice and the regulatory effect of the guidelines would gradually percolate to smaller companies and units in which labour is weakly organised.

6.43 It is possible that there will be occasions when it is not found possible by individual units or industries, whether in the public or private sector, to reach wage settlements within the guidelines laid down by the Bureau. We suggest that where such failure of collective bargaining takes place, the matter should be referred to an independent appellate body whose award would be legally binding on all concerned.

6.44 One of our Members Shri Arvind Buch has made several further observations and suggestions. These are reproduced below:

"Wages are normally evolved through traditional and historical processes. The existing wage and salary structures in different sectors are the result of

the decisions of various bodies such as Pay Commissions, Wage Boards, both statutory and non-statutory, University Grants Commission, Tribunal Awards, decisions of the High Courts and Supreme Court, as well as bipartite or tripartite collective bargaining. Distortions and disparities in wage structures have arisen primarily due to a large variety of dearness allowance formulae in operation, particularly those in which compensation for rises in the Consumer Price Index is given in terms of percentage of emoluments. The uniform dearness allowance formula recommended by the Study Group, according to which dearness allowance in future will be linked only to changes in the Consumer Price Index and not related to emoluments, should in due course lessen such differentials, more so for new entrants.

2. Wages can never be uniform in the whole country. In our democratic set up, it is not possible to erase the history of the past three decades with regard to prevalent wage structures in different sectors. However, so far as Central Government employees are concerned, standardisation has been achieved through the appointment of three successive Pay Commissions. This is a step in the right direction. It may be possible to achieve some uniformity in the public sector concerns through the appointment of a separate Pay Commission for their employees.

3. There are wide differences in the structure of wages amongst multi-nationals and national companies. Wages are related to productivity, profitability and use of modernised equipment. In many cases, managements themselves are responsible for tampering with wage structures to outdo their rivals in trade and business. As a result, there are instances where the remuneration given for similar work differs greatly even in units under the same management. These distortions can be corrected only through collective bargaining. Where collective bargaining fails, disputes should be referred to the Pay Commission I have suggested for the public sector, and to an independent appellate body in respect of the private sector. But I do not agree with the concept of a dual wage structure, which will allow higher emoluments for existing employees and lower emoluments for new entrants. In my view this will cause difficulties and heart burning.

4. The contribution of salary earners towards rebuilding the nation should not be lost sight of. The wage earners as a class are honest tax payers. The accumulated amounts accruing to them under provident fund schemes, contributory or non-contributory, are of the order of approximately Rs. 5,000 crores which is available to Government at much lower than prevalent interest rates. The employees contribution through the Compulsory Deposit Scheme during the last few years has been a significant factor in countering inflationary pressures. The purchasing power of the wage earners assists the process of development by helping in expansion of production and employment. Those in the middle and low income groups are also assisting their kith and kin in rural areas through regular remittances, the extent of which has yet to be surveyed.

5. The country has to achieve higher standards of living at all levels. Unfortunately the effort everywhere, whether on the part of management, trade unions, Government or public leaders, is aimed more at reducing the incomes of the well off but more efforts and actions are needed to improve the earnings and productivity of workers in lower income groups. Concentration of wealth has to be firmly dealt with, but this does not mean lowering the living standards of those who have amassed wealth. What is needed is to curb the exhibition of wealth. Some mechanism may be innovated to restrict too much concentration of wealth and its misuse in the context of economic growth.

6. Low wage islands in neighbouring countries and even in India in certain States have to some extent restricted economic growth. Such disparities should therefore be reduced primarily by improving the wage level. Other steps that might be taken to minimise distortions and discrepancies would be:

- (a) reducing the quantum of annual increment in all cases, and limiting it to 50% of the national minimum wage near the end of the grade in all sectors, government, public and private;
- (b) allowing lower rates of interest, say at about half the normal rate, where provident fund accumulations exceed Rs.50,000;
- (c) putting a ceiling of Rs.30,000 on gratuity not covered under the Gratuity Act, irrespective of salary and the number of years served;
- (d) putting a ceiling of Rs.30,000 on the total of loans and advances which carry subsidised rate of interest, such as those for house building, conveyance and similar purposes;
- (e) putting suitable ceilings on leave travel concessions, terminal benefits and perquisites etc.;
- (f) adequate reservations of posts for the existing Central and State Government employees for more than five years and less than fifteen years from Class II, III and IV in respective various public sector concerns.

7. I would also like the following suggestions to be given serious consideration. These do not directly affect the wage structure as such but are relevant to wage earners as a class and their income distribution.

- (i) To deal with grievances, demands and disputes concerning wages, perquisites and conditions of service of public sector employees, special Councils should be set up in each concerned Ministry consisting of one M.P., an independent person from public life, representatives of management and of trade unions, and an economist and a cost accountant. This Council may be presided over by the Minister in the employing



Ministry and the Labour Minister by turns. This will avoid ad hoc decisions and the resultant disparities and distortions. This Council will have a special cell in the Ministry by way of secretariat assistance. If this is considered too elaborate, joint committees of employing Ministry and Labour Ministry may be set up and empowered to take final decisions.

- (ii) In the private sector, whenever any non-salary perquisites like house rent allowance, transport facilities etc. are allowed to senior executives, it should be incumbent on the management to extend similar benefit to all categories of employees. This is likely to result in inhibiting managements from frittering away resources on extravagant perks and may also help to reduce disparities between the executive and the low paid employees.
- (iii) The system of services of Class IV employees, either peons or orderlies, being made available at the residence of certain top administrators and high salaried managers is socially undesirable and should be abolished. Where this facility has been enjoyed officially, compensation can be granted by way of an allowance equal to the national minimum wage we have recommended. It should, of course, be ensured that the abolition of this practice does not lead to unemployment; the affected employees should be retained and absorbed against vacancies arising due to death, retirement and other reasons.
- (iv) Income from the organised sector is said to create disparities, but it also tends to bridge the gulf between high and low incomes. For instance, reservation of posts for Scheduled Castes and Scheduled Tribes in Government and the public sector leads to flow of income to some extent to poorer sections of the community. This can be further achieved by encouraging the principle of minimum one job in one family. For this purpose, a specially coloured employment card can be issued to one person in each family having no employed member, and these card holders may be given in future preference for employment in Government and the public and private sectors, subject to their being fit on merits and having the requisite qualifications. The economic cake prepared in the organised sector can thus be further divided to eliminate disparity to a certain extent."

## Chapter VII

### DEARNESS ALLOWANCE

7.1 The structure of wages in an organisation assumes that prices will remain relatively stable. But if prices do rise, the question arises of compensating wage and salary earners to protect, to some extent, the real value of their money incomes. In our country, the mechanism employed for this purpose is generally the payment of dearness allowance as a separate element of wages. This system originated during the Second World War as a temporary device in a period of rising prices, and is peculiar to India and some neighbouring countries. Elsewhere, employees are generally compensated through periodical salary revisions or salary indexation.

7.2 There is a view that the existing system of dearness allowance has certain adverse economic effects and should be abolished. In support of this, it is pointed out that the severe inflation during 1973-75 necessitated the payment of huge sums of money as dearness allowance to employees in both the public and private sectors, which in itself contributed to inflation in no small measure. The argument is, however, fallacious to the extent it is based on the premise that, in the absence of dearness allowance, no alternative form of compensation would be offered and that such a situation would be acceptable to wage and salary earners.

7.3 Historically it has become standard practice, in government as in organised industry, to neutralise by periodical adjustments of dearness allowance the increases in cost of living, in varying degrees. It should be recognised that dearness allowance, as a system, has come to stay.

#### The existing arrangements

7.4 The existing systems of dearness allowance in the public and private sectors present very considerable diversity with reference to the linkage base, the mechanism of linkage, degree of linkage, periodicity of revision and the degree of neutralisation, both inter-sectorally and intra-sectorally.

7.5 For Central Government employees, the dearness allowance formula is based on the recommendations of the Third Pay Commission. Dearness allowance is linked to the All-India Average Consumer Price Index for Industrial Workers (General) with 1960 base. Increases are given for every eight-point rise in the twelve-monthly average of the Index. The extent of neutralisation is greatest (87.5 per cent) for the pay range upto Rs. 300 per month and diminishes in higher pay slabs to 62.5 per cent. There is a cut-off point at Rs. 2250, limiting the total of pay and dearness allowance to Rs. 2400 per month. For State Government employees there are varying systems in operation. About half the States already allow dearness allowance according to the Central pattern; many others are under pressure from their employees to fall in line. For those employed by local bodies, the pattern is again not uniform. Some workers do not get dearness allowance at all.

7.6 The majority of public sector undertakings under the Central Government have gradually come over to a standard formula which allows dearness allowance at a flat rate Rs. 1.30 per point shift in the All-India Consumer Price Index (1960 = 100). The formula is more favourable than that for Central Government employees at the bottom grades but not at higher levels. The percentage of neutralisation steadily tapers as salary level rises. Adjustments are effected quarterly or half-yearly. In certain organisations like the Shipping and Insurance Corporations, more liberal dearness allowance formulae are prevalent.

7.7 Bank employees for purposes of dearness allowance fall into two categories; (i) officers, (ii) clerks and subordinates. For the latter, dearness allowance is based on the principles laid down in the Industrial Tribunal Award of 1962 (Desai Award). According to this, for every rise or fall of four points in the quarterly average of the All-India Average Consumer Price Index for Industrial workers (1960 base), four per cent of basic pay is given to subordinate staff and three per cent to clerical staff. Quarterly average of the index is taken and adjustments made quarterly. In the case of clerks in the State Bank of India, the formula is slightly different and is linked to the Urban Non-manual Employees Index (1960 base).

7.8 More frequent adjustment and better rates of dearness allowance have created marked disparities between the emoluments of bank employees and those in other sectors. Thus, for example, on 1.1.73 a Lower Division Clerk in the Central Government earned Rs. 260 per month at the lowest level and a bank clerk Rs. 262.66. In December 1977 the same employees were getting Rs. 435.95 and Rs. 617.11 per month respectively without any change in basic pay structure.

7.9 The dearness allowance formula for officers is different from one bank to another. However, officers also get dearness allowance for every four points rise. The Pillai Committee has now recommended for bank officers a dearness allowance formula similar to the Central Government formula. This has been implemented only in a few banks so far.

7.10 Clerical and lower supervisory staff in the two Insurance Corporations get dearness allowance on the same basis as Award Staff of banks. For officers, dearness allowance has been linked to the basic pay at a flat rate, over and above which dearness allowance linked to the Consumer Price Index is paid under the nomenclature "Adjustment Allowance". The adjustment allowance, which was earlier ad hoc, was later on converted into a slab rate of Rs. 40 for every rise of eight points in the quarterly index of all-India C.P.I. numbers (1960=100). The formula provides for neutralisation at rates between Rs. 1.20 to Rs. 6.22 for every point shift. As for government employees, dearness allowance is cut off at Rs. 2250 per month.

7.11 Life Insurance Corporation and General Insurance Corporation provide telling instances where dearness allowance has distorted the wage structure, as

<u>Category</u>	<u>Pay scale</u>	Total emoluments (Pay + D. A. ) on <u>1, 11, 77</u>
		Minimum-Maximum
<u>Subordinate</u>		
Peon	125-245	410-804
Driver	166-310	544-1017
<u>Supervisory and Clerical</u>		
Record Clerk	166-390	450-1057
Clerk/Typlst	175-585	474-1585
Sr. Assistant/ Stenographer	230-735	623-1992
Superintendent	330-865	894-2344

7.12 Moreover, the more liberal formula applicable to Class III and Class IV employees has created anomalies in that some Class III employees draw much higher emoluments than Class I -officers on the same basic salary (Table 19). The emoluments structure has thus become topsy-turvy, reversing at some levels the principle of higher emoluments going with increased responsibility. Such a situation can unduly strain the administrative machinery and leave no monetary incentive to subordinate staff for advancement to positions of higher responsibility

7.13 In the organised private sector, several diverse dearness allowance systems have evolved over time as a result of Wage Board and Tribunal awards and bilateral agreements through collective bargaining. As may be seen from Tables 20 and 21, the formulae in operation differ greatly in many respects from industry to industry and sometimes even within an industry.

7.14 In the non-organised private sector mostly ad hocism prevails but some attempt at regulation of dearness allowance has been made through the Minimum Wage Act 1948. The Act, inter alia, provides for the fixation of an allinclusive rate in relation to the cost of living index or a rate which includes a component of the cost of living allowance and also provides for revision at periods not exceeding five years. In practice such revisions have rarely taken place.

#### Need for a uniform formula

7.15 It is clear that the bewildering heterogeneity outlined above has resulted in distortions, anomalies and arbitrary narrowing of differentials in all sectors. In certain sectors this has been aggravated by linking dearness allowance to wages. There is, therefore, need for a single national corrective formula to compensate for the rise in cost of the essential consumption basket.

### Linkage with price index

7.16 Practically all Commissions and Committees which have gone into the question have favoured a linkage between dearness allowance and the consumer price index, though opinions have differed on the extent of neutralisation. Similarly, the Supreme Court as well as Wage Boards are now committed to an established link between dearness allowance and the consumer price index. It would therefore be appropriate to link future dearness allowance increases to cost of living on a uniform basis.

7.17 The question arises as to the price index to which the dearness allowance should be linked. The widely adopted index is the All-India Consumer Price Index for Industrial Workers. It is based on a consumption pattern which existed about 20 years back but is now largely obsolete, and this may be true even of the revised 1971 series likely to be introduced shortly. The consumption basket which it represents contains several less essential items; for example, dry fruit, ghee, liquor, cigarette, cosmetics, ornaments, and air and taxi fare. Such items, as a matter of policy, do not need to be compensated at the present stage of development of our economy. For regulating dearness allowance a new index covering only the basic consumption items should ideally be utilised. But till such an index can be constructed and brought into use, the Consumer Price Index for Industrial Workers, which has the merit of general acceptance, may continue to be used in spite of its deficiencies.

7.18 There is also a Consumer Price Index for Urban Non-Manual Employees (1960=100) compiled by the Central Statistical Organisation on the basis of data collected from 45 centres, 18 of which are common with the Working Class Index. The use of this Index for regulating dearness allowance is at present somewhat limited. In theory this Index might be more relevant to non-manual workers, but the respective movement of the two indices have not been very dissimilar over time. Therefore, in cases where the Index for Urban Non-Manual employees is in use, it may continue to be used for regulating dearness allowance unless the employees and the employers decide by mutual agreement to switch over to the All-India C. P. I. for Industrial Workers.

7.19 In practice, different series of this Index continue to be in use. Certain industries are still using the 1939 series, some others are using the 1949 series and yet others the 1960 series. Since there is considerable divergence in the use of the Consumer Price Index itself, the latest available series should be used. With this proviso, therefore, there would be no objection to the use of the all-India or a regional index. The switch-over to the latest series could be made at the next wage revision.

### Periodicity of revision

7.20 At present, the frequency with which dearness allowance is revised ranges from monthly and quarterly to half-yearly or yearly adjustments. In some cases revision is made at irregular intervals when the index level changes beyond a specified number

of points. It is necessary that the linking mechanism should be clearly defined and be of universal applicability. It should avoid long gaps as well as uncertainty. We recommend that the periodicity of dearness allowance revision should be on a quarterly basis for all sectors with reference to the index average of the preceding quarter.

### Extent of neutralisation

7.21 In considering the question of the extent to which rise in costs should be compensated, we have to consider that in a situation where there is large scale unemployment and poverty, and where a large majority of workers in the agricultural and unorganised sectors are without any such protection, some sacrifice should reasonably be expected from those in employment and in receipt of wages above the minimum wage. The Labour Appellate Tribunal observed in the Buckingham and Carnatic Mills case in 1951 that cent per cent or nearly cent per cent neutralisation could not be awarded because of its inflationary potentialities. This view was confirmed by the Supreme Court in the case of clerks of the Calcutta Tramways.\* The Court reiterated the same view in another case.\*\*

7.22 Apart from the fact that, in principle, full neutralisation would mean chasing inflation, we have also pointed out that the basket of goods going into the present consumer price index includes some items which need not be compensated for. Besides employees in the organised sector are to some extent protected on account of the provision of certain fringe benefits at the employers' or at the public cost, e.g., free primary education, medical aid, subsidised housing, transport and canteen meals, etc., changes in prices of all of which are reflected in the index. Another consideration is that the rise in price of essential items should be compensated to an equal degree and that food and other essential items form a decreasing proportion of total expenditure as incomes rise. The degree of neutralisation should therefore decline substantially in the higher pay brackets. Keeping these factors in view, we consider that dearness allowance should compensate for the rise in price of the essential items in full only at low salary levels and go on tapering towards the top.

### Choice of a dearness allowance formula

7.23 The two main systems of dearness allowance are based on either a wage-linked slab system or a value per index point system. The slab system, compensating differentially at different salary level, derives support from the consideration that dearness allowance should be regarded as an instrument of protection against inflation rather than of redistributive justice. To a limited extent, a wage-linked formula also protects salary differentials which represent varying degrees of responsibility and skill. Besides, what is regarded as essential consumption may not be similar for all salary levels.

---

\* 1956 ILJ II 450

\*\* Kamani Metals and Alloys Ltd. Vs : Their Workmen, 1967 ILJ, II 55.

7.24 On the other hand, the per point formula has a manifest justice, with an inbuilt progressive edge so that the employees at lower salary levels are compensated more fully than those at higher levels. It is more logical, simple and has ease of universal understanding and application. It compensates employees equally for a given essential basket of consumption and, unlike the wage-linked slab system, it does not further accentuate the existing relativities in wage structure. In the wage-linked slab system, the differentials get eroded or distorted and certain amount of bunching takes place which disturbs existing relativities. The per point formula does not have this defect and, in fact, is also more egalitarian. Under this system, higher amount of dearness allowance is not paid to better off people who spend more on non-essentials. Per point formula also finds support\* in the Report of the National Commission on Labour. If there are anomalies created by inflation, they should be squarely faced and wages appropriately revised at the affected levels, instead of dearness allowance being used as an instrument of protection for anything more than the essentials.

7.25 Under a per point formula, the lowest categories will get compensation to fully neutralise increases in the cost of living, while all those above a certain salary level will get fully compensated for that part of their expenditure which, in human terms, is vital. Further, it will completely and finally delink the question of wages from the question of dearness allowance and will put the latter outside the area of disputes. Most important, it will cause little or no further distortion in the wage structure or relative wage structures and wages. We can thus isolate the problem of anomalies and disparities which have arisen in the past. Further, in the case of government employees there have been disputes about the existing basis on which compensation is given for each eight points rise in the Index, and whether payment should be made in cash or otherwise. A formula providing automatic adjustment every quarter with reference to fixed value per index point should, therefore, help harmonious relations between government and its employees.

7.26 On these considerations, we have come to the conclusion that the per index point system of regulating dearness allowance is to be preferred for adoption uniformly.

7.27 In para 7.15 we have pointed out the need for a single national formula. A sectoral approach limited only to, say, the government and public sectors, could engender a sense of discrimination and generate consequential discontent in the affected sectors. We, therefore, recommend adoption of an across-the-board approach, covering all sectors of employment.

7.28 Given the variety of D. A. formulae now in use, we have to recognise that whatever standard formula is adopted on a national wide scale, will benefit some and will affect others adversely. Our purpose is to bring in rationality in the payment of dearness allowance. In the process we should endeavour to minimise any adverse impact on the employees so that the 'per point' formula gains easier acceptance. The value to be adopted for each point of the Index has to keep the existing level of benefits in view.

---

\* Report of the National Commission on Labour, para 16.49, pages 242-3.

7.29 In the circumstances, we recommend adoption of the per point formula uniformly for future revisions, the value per point being around Rs. 1.30\*. This is already prevalent in about two-thirds of the public sector-enterprises as also in cement and steel industries. The per point formula with varying point values is in use in a number of other industries like cotton textiles, jute, engineering (West Bengal) and sugar\*\*. This formula would ensure full neutralisation at the lower levels and the same amount of dearness allowance would be admissible to everybody above the line. Since D.A. under this system is not related to salary, it will be admissible to all irrespective of salary drawn.

7.30 In no case will there be a reduction in the dearness allowance at present being drawn. Only the future increases in the cost of living will be compensated according to the uniform formula proposed by us.

7.31 This formula avoids violent departure from existing neutralisation percentages at low levels. In fact, in the Central Government, persons getting basic pay of Rs. 415 or less per month will benefit as a result of future dearness allowance being granted at the rate of 1.30 per point; in State Governments the corresponding limit may be higher. A rough estimate prepared sometime back showed that nearly 90 per cent of the total number of employees in all sectors of employment will not be adversely affected (Table 22).

#### Merger of dearness allowance with pay

7.32 A rational dearness allowance formula should be related to a more recent salary base. The traditional method has been to merge dearness allowance with pay at a point from which prices are not likely to fall. However, since the dearness allowance formula recommended by us is not linked to salary or wage but only to the rise in the level of the consumer price index, the merger issue is not germane to our approach. We would therefore leave this to be settled at the next wage revision in all sectors, particularly where in the total emoluments the element of dearness allowance is disproportionately large.

#### Transition to the new system

7.33 While we have stressed earlier that the standard scheme of dearness allowance should be applicable for the entire economy, we recognise that there will be practical difficulties in changing over to a uniform system all at once. Determined efforts are necessary to secure uniformity gradually but according to a pre-determined programme. As a first step, we suggest that the Central and the State Governments should adopt the standard system proposed, and that the standard formula should come to apply to public sector undertakings and the private sector as and when existing bilateral agreements expire. Further, the recommended rate per point should for the present be regarded as a ceiling rather than as a mandatory rate.

---

\* The rate of Rs. 1.30 per point allows full neutralisation at the basic pay of Rs. 260 related to C. P. I. level 200 (or the basic pay of Rs. 353 related to Index level 272).

\*\* Details in Table 21.



7.34 With the change in the system of dearness allowance, the tendency among the employees, particularly in employments where the new scheme may involve reduction in future dearness allowance, would be to demand a review of wages and salary scales. If these demands are mutually agreed between the employers and the employees, the objective of rationalising the dearness allowance will be frustrated. It will, therefore, be necessary for the government to consider measures which will discourage bilateral settlements for compensations linked with dearness allowance.



## Chapter VIII

### BONUS

8.1 Although it has not been specifically mentioned in our terms of reference, the question of bonus implicitly falls within them, because it forms a part of the emoluments of large numbers of workers in the organised sector, and it clearly influences the relative pattern of emoluments in different industries and units. Table 23 will show that it has also been a major cause of friction in industrial relations. Besides, Government have deferred taking a view on the bonus demand of Railway employees pending submission of the Study Group's report. We have, therefore, examined the bonus question as part of wages and incomes policy.

#### Evolution of the bonus system

8.2 During the last quarter of a century or so, the concept of bonus has undergone a complete transformation in India—from a voluntary gift to a statutory right. In the early days of compulsory adjudication, there was uncertainty as to whether bonus was in the nature of an ex-gratia payment, share in profits, or extra remuneration for work done. The purely ex-gratia concept came to be seriously challenged in the forties, with the workers pressing more and more for grant of bonus. The Committee on Profit-Sharing (1948) recommended the introduction of profit sharing schemes in six selected industries in the interest of industrial peace and increased production. The Labour Appellate Tribunal observed in its Full Bench decision in 1950 that bonus could not any longer be regarded as an ex-gratia payment; that where the industry was not in a position to pay "living wages," bonus must be looked upon as the temporary satisfaction, wholly or in part, of the needs of the employees, and that where the goal of living wages had been attained, bonus, like profit sharing, would be in the nature of incentive to better efficiency and production.

8.3 Certain rulings by the Supreme Court prior to the Payment of Bonus Act, 1965, treated bonus neither as an ex-gratia payment nor as deferred wage, but a compensation for labour's contribution to the profit earned by industry, and also intended to help labour to narrow down the gap between the living wage and the actual wage received.

8.4 The next landmark was the setting up in December, 1961, of a tripartite Commission (Bonus Commission) to consider the question of payment of bonus based on profits. The recommendations of this Commission resulted eventually in the enactment of the Payment of Bonus Act, 1965. The Act provided for a minimum bonus of four per cent whether there were profits or not in an accounting year, and a formula for profit-linked bonus limited to a maximum of 20 per cent. The Act applied to all factories and also to non-factory establishments employing 20 or more persons; in addition, it covered those of the public sector establishments which compete with similar establishments in the private sector. It also allowed employers and employees

to arrive at settlements under a formula different from that embodied in the Act.

8.5 The Bonus Act of 1965 was amended in 1972 to raise minimum bonus from four per cent to 8.33 per cent for the accounting year 1971-72, and later also for the years 1972-73 and 1973-74. In September 1975, the Payment of Bonus (Amendment) Ordinance was promulgated, and was subsequently replaced by an Act of Parliament on the 11th February, 1976. Under this statute the concept of bonus ceased to be that of deferred wage, because units incurring losses were not required to pay minimum bonus. Nor was it wholly a profit-sharing bonus, because units with only a nominal surplus were required to pay full minimum bonus even though profits may not be sufficient for the purpose. The repeal of Section 34(3) of the Payment of Bonus Act was intended to prevent employers from agreeing to rates of bonus far in excess of rates laid down in the Act under threats of strike or direct action by labour. The bonus linked to production or productivity was also not to exceed 20 per cent. The ex-gratia payments, which government had been making under executive orders to Banks, L.I.C. Ports and Docks, and non-competitive public sector undertakings, were limited to a maximum of ten per cent.

8.6 There were several representations that, in many cases, in spite of profits there was no "allocable surplus" and consequently no bonus was payable to workers. Doubts were also expressed about the accuracy of balance sheets and profit and loss accounts. Government announced on 17th January, 1977 that:

- (a) A minimum bonus of Rs. 100 will be payable to every adult employee even if there is no "allocable surplus" but there is profit as per the profit and loss account.
- (b) The Tribunals deciding industrial disputes relating to bonus will be empowered to go not only into questions of accuracy of balance sheet and profit and loss account, but also into the propriety of various items of expenditure.

8.7 In September, 1977, the new Government restored the minimum bonus of 8.33 per cent for the accounting year 1976 — subject to the existing provisions in the Bonus Act which empower government to protect marginal and sick units. The question of entitlement to bonus in respect of 1977 and subsequent accounting years has, however been kept open.

8.8 The recent judgement of the Supreme Court, striking down the Life Insurance Corporation (Modification of Settlement) Act, 1976 and allowing Class III and Class IV employees of the LIC 15 per cent bonus for the for the years 1975-76 and 1976-77, has introduced a fresh dimension in the concept of bonus. It has been held, inter-alia, that the entitlement to bonus constitutes "property".

#### The present position

8.9 It has been estimated that about seven million employees in the organised

sector are at present covered by the bonus scheme. Reliable details regarding the number of establishments covered, the number of employees, the rate of annual bonus or the total amount of bonus paid are not readily forthcoming. However, some evidence relating to 1973-74 suggests that a significant percentage of companies had paid bonus in excess of the statutory minimum.

8.10 As the quantum of bonus payable in each case depends on the emoluments (wages and dearness allowance) drawn by the employee and as wide disparities exist in the wage structure in various undertakings in the private sector and even the public sector, it is obvious that the monetary benefit accruing to employees is nowhere near uniform. Thus, while the overall monetary outgo on account of bonus is sizeable, the benefit is distributed unequally and contributes to widening of wage differentials.

### The bonus concepts

8.11 Conceptually, bonus payments do not flow from a logical and consistent base. Bonus has been variously regarded as deferred wage, as worker's share in profits or as the gain arising out of productivity. If bonus is to be regarded as deferred wage, it should logically be incorporated in the wage structure itself once for all; thereafter the question of bonus should not arise. But in practice, this is unlikely to extinguish future claims to bonus. Absorption of bonus as part of the wage structure would moreover mean perpetuation of existing disparities within the private and public sectors and between these sectors and government employees.

8.12 Bonus is somewhat related to profit but not quite, because it is payable even when there is no profit. Further, such a link is not tenable in sectors where profits, unlike those earned by competitive industries, are determined or largely influenced by government policies. In the government sector, the concept of profit is not applicable at all. Apart from this, bonus also tends to come in the way of the actual prevalence of the widely accepted principle of like pay for like work.

8.13 The productivity link would appear to be more logical and satisfactory, but it is difficult, if not impossible, to identify measures of productivity which can be uniformly applied to all sectors. The sharing of the benefits of productivity can, therefore, be better achieved by periodical adjustment in the wage structure as we have recommended in Chapter VI.

8.14 The payment of bonus in the public sector undertakings and the organised private sector has created inter-unit disparities and also led to dissatisfaction among the vast body of hitherto ineligible employees. More important, it has been a major cause of friction in industrial relations. The present situation is not very satisfactory from the view point of either management or labour or the Government.

### Suggested approach

8.15 Logically, bonus related to profit, of the kind which has prevailed in India

for a long time now, is suitable only in industries producing for the market in reasonably competitive conditions. It is not suitable in the case of organised activities, industrial or other, where the profit motive does not operate at all or where the profits are induced, influenced or otherwise affected by public policy and largely used for the community welfare. Thus, it is unsuitable in government services and similar activities, including the Railways, Posts and Telegraphs, and public utilities, financial and other institutions.

8.16 On this reasoning, there can be no question of extending the system of bonus related to profit to new areas. Further, where the bonus system prevails in unsuitable areas, it should be phased out, if necessary by replacing it with other payments related to more suitable measures of performance.

8.17 In Railways, Posts and Telegraphs, and Ordnance Factories, etc., fairly large numbers are engaged in activities closely similar to those in industry in the private and public sectors. In the system of wages and remuneration now prevailing, they are better off in some ways and worse off in others. If, after a comparative study of their emoluments and non-wage benefits, it is found that their real wages are clearly out of line with those of similar workers in the private and public sectors, necessary corrections must be made through an appropriate revision of the structure and rates of remuneration, and/or suitable incentive payments. In Chapter VI we have already recommended the appointment of a Pay Committee to undertake this study.

8.18 Even in the industrial sector, both private and public, bonus related to the profits of individual undertakings tends to perpetuate and accentuate disparities in the earnings of workers who do the same work or put in the same effort. It tends to create tensions between workers themselves, between government and workers, between managements and workers and even between managements. In the long run, it would be desirable to replace it by a system which would enable labour to get a fair share of the benefits of productivity without causing such distortions. Meanwhile, it has to be recognised that the bonus system has become a part of the industrial way of life in India. It will not be practicable to give it up until the economy reaches a higher level of productivity and wellbeing. Until it is replaced by general agreement, we recommend the continuance of the existing system.

8.19 So long as bonus prevails, and to the extent it prevails, it should be taken out of the area of industrial disputes. Suitable machinery might be created for giving fair but quick decisions when there are differences about the quantum of the allocable surplus. The question of bonus being paid on a different basis after mutual agreement should not arise.

8.20 Government may initiate talks with trade unions and managements paying bonus under the Payment of Bonus Act to replace it by long-term benefits like retirement pensions to all the categories of employees, and some scheme of unemployment

relief to those who have once been employed and who have become temporarily unemployed.

8.21 We have discussed several possibilities for bringing about such a transformation. One such, which might provide a smooth transition, is outlined below.

8.22 Whatever minimum bonus is payable, may be paid not to the individual worker but to a generalised pension fund. In that case, even units incurring a loss in a particular year may still be made liable to make this payment to the fund later when they have a profit.\* For example, rough calculations show that if a generalised pension fund were to be created and fed with contributions of, say, five per cent of annual wages, it would enable the payment of a pension which would be about half the rate of government pensions at present. Such a pension, together with the existing contributory provident fund scheme, would be an important first step towards a system of social security. Where there is an allocable surplus, the first charge should be the above minimum and the second charge may be one month's bonus to be paid in cash. Any excess over this may be credited to individual provident funds. In course of time, part or whole of the payments, other than contributions to the pension fund, may be used to create and maintain a separate fund from which workers can be paid during periods of temporary unemployment due to closure of firms and factories, mines and plantations, etc. Under this scheme low-paid workers may also be exempted from payment of subscriptions under the Employees' State Insurance Act. Wherever bonus is not paid, such benefits may also be extended provided national consensus of converting bonus into the above-mentioned long terms social security measures is arrived at through tripartite dialogue.

8.23 It would also be desirable, at that stage, to provide that a portion of the allocable surplus in high profit industries should be diverted to financing schemes for rural employment recommended elsewhere in this report.

8.24 We also recommend that discussions for a gradual change-over towards the new system may be initiated early. There are several choices available and further thought and discussion may indicate even better methods. One such choice has been outlined above. Further consideration of this may be the first step in the process of change.

---

\* One of our Members has pointed out that even though set offs are permitted for loss making units, no bonus should be payable if losses continue beyond two years. Otherwise, banks would keep on meeting this liability which amounts to public subsidising these units.

## Chapter IX

### PRICES

#### Functions of the price mechanism

9.1 The price mechanism has many functions, whether it is left to be operated by the 'unseen hand' or is subject to various types of intervention by society or the State. It simultaneously reflects and determines the changing relative values of the various types of goods and services produced as well as the factors of production. It is also the regulator, or even determinant, of the allocation of resources. Viewed in the broader sense of including the prices of the factors of production, prices and incomes are inextricably intertwined, continuously influencing each other. The income of an individual is the resultant of the prices of the factors of production which he represents, owns or controls. The size of incomes and the prices of goods and services determine the proportion of incomes saved and consumed, while relative prices influence and change the pattern of consumption. The nature of one's concern about the price level and of movements in relative prices therefore largely depends on one's place and function in society. Thus, the main concern of the self-employed farmer with a marketable surplus is the relative price of his product compared to the various goods he has to buy. But to one whose income depends on contractual arrangements not easily alterable in the short period, stability of the prices of the goods and services on which he usually spends his income is by far more important. But even to him, the price of his own product, viz., labour or skill, is by far the most important.

#### Prices and incomes

9.2 It is more than a truism to say that increase in prices adversely affects the fixed income groups most, for whom there is either no mechanism of neutralisation or the extent of neutralisation is less than the increase in prices. The distinction generally made in this connection is between wage earners and profit earners. But even among the self-employed who do not theoretically belong to the fixed income group, the capacity to compensate themselves adequately against a general rise in prices is neither uniform nor very widespread. It is only the minority who produce or get control of goods for the time being in short supply which is able to get such compensation or even benefit from inflation. The position of the rest is not very different from those of fixed income groups. They include small professionals in the rural areas, artisans and handicraft workers, agricultural labour and workers in the non-agricultural unorganised sectors. In particular, a rise in food prices hits landless labour who do not produce food, as well as low-income urban consumers including the self-employed with low earnings.

9.3 Another aspect of a situation of rising prices is that the prices of essential goods of mass consumption often tend to rise more than the prices of less essential

manufactured items in terms of changes in relative prices. Consequently, the already existing disparities of consumption get worse. To ensure stable prices of essential commodities and moderate the movement of the price index is therefore of greater importance. Similarly, if price stability is not maintained, then the increase in prices, particularly of mass consumption goods, has a direct impact on wages in the organised sector, mainly due to the resultant higher dearness allowance linked in some measure to the cost of living index. The converse effect of wages on prices is more indeterminate, although obviously high wages not justified by increases in productivity should create cost-push inflation. Therefore, a close relationship between productivity and earnings, to the extent possible, emerges as a key factor which should underlie policies for growth with stability.

9.4 Changes in prices or in the cost of living also affect the wage level in a different way. When the annual rate of increase in prices is considerably higher than the rate of increase in productivity per worker, wage levels tend to follow the trend of movement of prices rather than the trend in productivity. In most West European countries, prior to the recent inflationary pressures the cost of living of the working class was more or less under control in the period following the Second World War. Generally the rate of increase in industrial production and productivity per worker was higher than the rate of increase in the cost of living. Consequently, wage revisions tended to follow the variations in productivity rather than variations in the cost of living index. But in India and other developing countries, the position has been different. While industrial production in India has increased by about five per cent per annum during the last five years, the labour force in the manufacturing sector has also risen at the rate of two to three per cent. Thus, the growth of productivity per worker in industry has been in the range of two to three per cent each year. On the contrary, prices have risen at a much faster rate -- in some years the rate of increase being more than ten per cent. And, because of this, wage settlements have been influenced more by compensation for increases in the cost of living than by productivity per worker. This is bound to be the case so long as the price level is allowed to increase at a faster rate than national productivity. The longterm objective of a steady increase in the standard of living can only be attained by stable policies which raise incomes commensurate with increases in productivity. It goes without saying that the benefit of increases in productivity must in part also be shared by the consumer, whether of agricultural or of other products. For such policies to have any reasonable chance of success, it is essential that the price level should be kept reasonably stable. A stable price level does not, of course, mean rigidity, in all prices. To reflect changing degrees of scarcity of natural resources and the factors of production, changes in demand through technological and cultural changes and such like, relative prices must, of course, be allowed to play their necessary part. Experience in the modern world is that such necessary and desirable changes might add up to a gentle increase in the price level but no more. For all concrete purposes, such a gentle increase can well be equated with price stability. If such price stability is attained, the



continued upward adjustments of incomes made possible through increases in productivity can be brought about smoothly and without the distortions which accompany unintended redistribution of incomes through inflation.

### Present price policy and instruments

9.5 Apart from market forces, prices in our country are influenced by various other factors. The Bureau of Industrial Costs and Prices, for instance, determines the costs of manufactured items and the desirable level of prices for these products. The prices of certain raw materials and intermediates such as coal, steel and cement are administered by the government, as a matter of policy; those of other commodities such as petroleum products are regulated on the basis of changes in international prices and duties levied with a view to curbing their consumption. Again, the prices of agricultural products are subject to minimum support and procurement prices fixed from time to time.

9.6 Among the important policies at present pursued towards price stability are supply management and public distribution of selected commodities; monetary and credit policies; regulation of imports and exports; purposive adjustments in excise duties; and incentives for stimulating production of goods in short supply.

### Behaviour of prices

9.7 There has generally been a rising trend in prices during the entire period of economic planning except during the First Five Year Plan when the wholesale prices went down. Since then, there has been a continuous rise in prices except during the years 1968-69 and 1975-76 when the prices showed a marginal decline. The annual rate of rise in prices amounted to six per cent in the Second and the Third Plans, eight per cent in the Annual Plans (1966-69), nine per cent in the Fourth Plan, 25 per cent in 1974-75 and about two per cent in 1976-77. The index numbers of wholesale prices on 1952-53, 1961-62 and 1970-71 bases are given in Table 24 which also shows the movement of the consumer price index (base 1960) from 1970-71 onwards.

9.8 The movement of the consumer price index generally tends to follow that of the wholesale price index with some time lag. The consumer price index, including as it does a number of controlled items and services, should ordinarily be expected to be more stable compared to the wholesale price index. However, during 1977-78, the relative movements of the two indices have deviated from this pattern. While the All-India Consumer Price Index for Industrial Workers (1960-100) showed an increase of nine per cent during the first nine months, the wholesale price index moved up only by 6.6 per cent during the same period. Similarly, while the consumer price index advanced by about 5.8 per cent in December, 1977 over March, 1977, the wholesale price index moved up only by less than one per cent in the same period (Table 25). Though a part of the discrepancy is due to

different bases of the consumer price index (1960) and the wholesale price index (1970-71), it would appear that operative policies have affected the pace of increase in retail prices less successfully than the wholesale prices.

### Relative prices

9.9 Changes in the price level, as indicated by the movement of the general price index, envelope and embody the changes in the prices of a variety of commodities. They do not and indeed cannot vary in the same manner all the time, although because of intimate relationships in the processess of production, they broadly tend to move in the same direction though at somewhat different rates. Table 26 showing the movement of wholesale price index numbers by major groups from 1971-72 to 1977-78 gives a broad idea of such changes in relative prices. It will be seen that during this period, there was a fourfold increase under the head "Minerals" which include mainly crude oil, but the greatest part of the increase took place in a short period between 1973-74 and 1974-75. The prices of fuel, power, light and lubricants have also risen more than the general index. For other groups, the overall increase from the first year to the last year of this period has been approximately the same, but the rate of movement has been dissimilar between the group of primary articles on the one hand and manufactured products on the other. In the case of the former group, the main constituents of which are goodgrains and other agricultural products, there was a very steep increase in the two years succeeding 1972-73, followed by a small decline in the next two years and a small rise in the last year. In the case of group of manufactured products, however, the increase in the years of high inflation was not quite so much as in the primary sector. This was mainly due to the fact that the capacity of the manufacturing sector to absorb shocks is somewhat higher.

### Objectives of price policy

9.10. Inflation is universally regarded as undesirable because, willy nilly, it brings about an unintended redistribution of effective purchasing power. Theoretically, the redistribution may be good, bad or indifferent; but in observed reality, the redistribution is generally unfavourable to the ordinary man, specially if he belongs to the fixed income groups or the self-employed unable to pass on the increased costs to others. In the affluent societies many corrective methods have been found and institutionalised. The result is that though inflation is frowned upon, the bulk of people have learnt to live with it and without too much discomfort. If incomes are adjusted to rising prices without too much lag, and so done that the real standard of living goes on rising (and this can happen only if the rate of increase or productivity is higher than either), then inflation loses much of its terrors. This, in fact, is what has happened in the more affluent western countries, where for the last 30 years or so, prices have continuously risen. But thanks to productivity and economic progress, real incomes have also risen and so the standard of living has, by and large, continued to improve, suffering only temporary set-backs. The low rate of population growth has helped this process.

9.11 The Indian situation is altogether different. Only a relatively small proportion of the population, namely, the 25 million and odd wage and salary earners are in varying degree insulated against rising prices. Small sectors of the people -- traders and large farmers -- may even become the beneficiaries of inflation. But the rest of the population, and which forms the bulk, are victims of inflation. In the Indian context, therefore, maintenance of price stability is something which is more important than in the affluent western countries. The main thrust of our economic policy has thus necessarily to be anti-inflationary. It is far better to maintain price stability rather than allow inflation first to overtake the economy, and then start a desperate search for remedies.

9.12 While price stability has to be accepted as a primary objective of an integrated policy, we have already stated that it does not mean that all prices should be frozen. Movement of relative prices due to legitimate economic reasons is quite consistent with general price stability. Individual prices have, therefore, to be allowed to move, and in certain circumstances have even to be changed deliberately. Such a movement is warranted by the need to direct investment, production and distribution patterns along desired lines. Sometimes, prices to the consumer have to be kept low even through the mechanism of subsidies. Adjustment of prices may also be necessary for correcting anomalies, and so on. But all factors taken together, it should still be the objective of policy to see that the general price level does not vary by more than two or three per cent per year. This alone will clear the decks for the orderly implementation of policies designed to bring about greater growth and better distribution. It is thus that price policy and incomes policy should be integrated.

#### Strategies for price stabilisation

9.13 For discussing appropriate strategies, commodities can be grouped in three broad categories, viz. (i) agricultural products, (ii) goods for mass consumption and (iii) intermediate and capital goods.

##### A. Agricultural products

9.14 The minimum support prices/procurement prices of agricultural products are fixed by Government in the light of the recommendations of the Agricultural Prices Commission. The agricultural price policy should lend support to the efforts to increase overall agricultural production and to induce changes in the cropping pattern in accordance with the changes in the composition of demand, besides ensuring that the rise in prices associated with periodic shortages does not push basic necessities out of the reach of the common man.

9.15 The movement of the wholesale price index is closely related to changes in the prices of good items such as cereals and pulses. There have been violent fluctuations in the prices of these commodities whenever production has gone down.

Therefore, it is necessary that the farmers are given requisite incentives, by way of procurement prices as well as supply of basic inputs at reasonable prices, so that the production of food does not fall short of requirements. Commercial crops are equally important as about 30 per cent of the total industrial production comes from industries based on agriculture for their key raw materials such as sugarcane, raw cotton, raw jute, etc. These crops provide the farmer with ready cash to meet his requirements for non-food items and the surplus for maintenance and reinvestment on the farm. In order to benefit the small and marginal farmers, therefore, encouragement and assistance should be given to them for the production of selected cash crops with a labour intensive bias.

9.16 It would appear, however, that the effect of price incentives in increasing agricultural production is not decisive but limited. While the production of individual agricultural commodities may be quite responsive to price increases, such empirical evidence as is available would suggest that, so far as aggregate agricultural output is concerned, the response to prices is rather weak. Besides, a large proportion of small farmers and the landless labourers are net purchasers of food, and increase in food prices make them worse off in real terms. Thus, the benefit of higher procurement/support prices has gone mainly to the middlemen and relatively small number of affluent farmers having net marketable surplus. In this view, a price support policy, if it were to benefit the small and the marginal farmers, would have to include not only incentives for cash crops but also facilities for organised marketing. Among the measures that might be considered are multiple points of procurement in order to minimise the role of middlemen and simplifying bureaucratic organisation and procedures. The cost of procurement and distribution through established trade channels is often less than what is incurred by State agencies, but in times of severe price fluctuations and shortages, private trade is apt to exploit both the farmer as well as the consumer. Nevertheless, efforts should be made to reduce the costs of procurement, storage, transportation and distribution of foodgrains and other essential items through public channels.

9.17 Of course, in the long run, effective procurement and distribution depend on adequate production, and therefore the ultimate strategy for stabilisation of prices of agricultural commodities and improving farm incomes as well as wages of agricultural labour lies in higher investment in agriculture, by way of irrigation facilities and improved technology, and vigorous implementation of land reforms. Simultaneously, the village-level organisations will have to be so reorganised that the benefit of concessional inputs passes to the small and marginal farmers, and not to the richer ones.

#### Terms of trade for agricultural products

9.18 A point is often made that the farmers have faced the adverse terms of trade, that is to say, the prices paid by the agriculturists have risen faster than the prices received by them for their products. However, according to the data

available to us (Table 27), the prices paid by agriculturists for non-agricultural products purchased either for intermediate use or final consumption have, in fact, risen at a slower rate than the prices received by them for their products. During the period 1951-52 to 1974-75 the price index of agricultural products went up by slightly less than six per cent per annum whereas the prices of non-agricultural products purchased by farmers increased at the rate of 4.45 per cent per annum. The net terms of trade -- the proportion of the prices of goods sold by farmers to the prices of non-agricultural products purchased by them -- has been above 100 since the year 1964-65 and has over a span of 23 years improved at the compound rate of growth of 1.43 per cent per annum. Similarly, the terms of trade of all agricultural products -- proportion of the price index of agricultural products in relation to the price index of non-agricultural intermediate products purchased by the farmers -- has also gone up at the rate of 1.34 per cent per annum.

### **B. Mass consumption goods**

9.19 While incentive for the farm sector to grow more food and non-food crops are necessary, the need for keeping the movement of prices within reasonable limits is equally vital. Indeed, the wages-prices linkage also points to the compulsive need for keeping in check prices of essential commodities. For this purpose it is imperative that, whatever the administrative difficulties, a wide network of public distribution system for such commodities must be spread throughout the country, and specially extended to rural areas, in order to ensure availability of these goods at reasonable and stable prices. The selection of commodities covered by the public distribution system is important. Ultimately, the items to be covered could well be cereals and pulses, vegetable oils, sugar, fuel, soap and varieties of cloth commonly consumed.

9.20 The building up and maintenance of adequate buffer stocks of the selected items is important for any effort to minimise the effect of fluctuation in supplies and of local shortages. In order to ensure against break-downs, policies aiming at encouraging higher production of basic consumption commodities and adequate arrangements for procurement and buffer stocks of essential goods have to be pursued. The agency dealing with distribution of commodities must keep a close watch on their availability. In fact, it would be desirable that an item is brought under the public distribution system only when its availability in the required quantities can be assured through planned domestic production and through import whenever necessary.

9.21 For the distribution of mass consumption goods generally a variety of outlets should be organised and encouraged. These should include consumer co-operative societies, fair price chain shops under the auspices of public authorities and the use, where suitable, of existing outlets such as petrol stations, posts offices, licensed self-employed vendors, etc.

9.22 The problem of ensuring adequate supplies of essential commodities at reasonably stable prices for sale through a wide-spread public distribution system

sometimes presents a dilemma which can only be solved by subsidies. In the long run, no commodity, whether for mass consumption or not, can be produced in the quantities necessary to meet steadily increasing requirements, unless the price to the producer is reasonable and adequate. This will be so whether the goods are produced in the private sector or the public sector. It might happen that the level of prices required to elicit sufficient production and enable further growth of the industry may be regarded as rather high for the mass consumer. But if on that ground the price to the producer is held down to a level regarded as within reach of the poorer consumers, increase in production would be jeopardised. In such situations, a suitable subsidy is the only answer. It goes without saying that the choice of goods which are to be subsidised in this manner must be carefully made and revised from time to time. Administrative arrangements should also be such that the benefit of subsidies largely goes to the lower income groups for whom they are intended.

9.23 In this connection, the impact of Central and State excise duties on the prices of items which affect the family budgets of the lower income classes has been a matter of some controversy. The Committee on Indirect Taxation also does not seem to have gone fully into this question. It is, therefore, necessary that an in-depth study is undertaken of the incidence of indirect taxes on prices of essential goods and the inputs that go into their production.

#### C. Intermediate and Capital Goods

9.24 In the case of capital goods and intermediate goods, specific price controls and systems of administered pricing will work only in respect of a few homogeneous products like steel and cement. Machinery, plant and equipment and their components are often custom made and their specifications, quality, etc. vary. It is impossible to think in terms of direct control over pricing as a means to ensure reasonable prices for this category of goods. The long term answer lies in making the domestic industries producing capital and intermediate goods more competitive and using the import mechanism to augment supplies and ensuring that domestic prices are not permitted to exceed international prices except by a modest percentage.

9.25 A major implication of this approach is that the protection provided to indigenous industry would have to be reviewed periodically and steps taken to revoke bans and reduce import duties in a phased manner where necessary, so that over a period capital goods industries are enabled to become competitive and sell their products at reasonable prices.

#### Other strategies

9.26 The system of dual prices under which the producer is required to sell a part of his production at fixed prices to certain categories of consumers, either directly or through State agencies, while being free to sell the remaining part of production at whatever the market can bear, has often been tried in the past, sometimes with success, and prevails even now in certain areas, i.e. sugar, and "controlled cloth". The system of dual pricing could be operated selectively in the case of

commodities afflicted with chronic or recurring shortages. In a longer term context, where the production of the commodities concerned is subject to sharp fluctuations, the successful working of the system pre-supposes a stocking policy on the part of the government as an accompaniment of the public distribution system.

9.27 In view of the comfortable foreign exchange situation, timely import of essential commodities in short supply has already been taking place and this policy instrument will require to be sharpened for more effective use in the regulation of prices and encouraging production of domestic goods. In order to increase competitiveness in the manufacturing sector and to ensure that unwarranted protection is not given to inefficient producers, import margins should be reviewed and reduced wherever they are unduly high. We suggest that it would be desirable to aim at a uniform import duty of about 20 per cent, particularly on capital goods and intermediates in short supply. Specific justification would be required if an industry or unit needs protection in excess of this limit. In order to protect the interest of the domestic consumer, the policy of banning the export of essential consumer goods has merit during periods of severe shortages.

9.28 Price controls are a part of the strategy to fight inflation, but they are apt to have unintended results. By diverting resources to production of other commodities which are not subject to price control, they may intensify the basic shortages of the price-controlled commodities. Besides, it is well known that controls breed corruption, tax-evaded earnings and black-marketing. Ineffective controls that merely direct extra profits from producers to middlemen are inconsistent with a growth-oriented prices and incomes policy. There is, thus, need for periodic review and rationalisation of the system of various price and output controls, as well as subsidies allowed to farmers and manufacturers. The setting up of the Dagli Committee to review the present arrangements in regard to various price controls is in this context a welcome step. However, in our view, conditions call for setting up of a permanent machinery to examine and monitor the behaviour of prices and to suggest suitable changes in the prices of agricultural products as well as raw materials and manufactured items on a continuing basis.

9.29 The existence of strong consumer organisations in many developed countries is a significant factor in ensuring availability of consumer goods at reasonable prices. At present, such protective mechanisms hardly exist in our country. Necessary steps should therefore be taken to encourage and foster the consumer movement. Further, although other interests are often represented in bodies concerned with pricing and distribution, consumer interests have not been adequately represented. We recommend that this lacuna should be expeditiously filled by giving adequate representation to consumer interests in the appropriate bodies.

## Chapter X

### MISCELLANEOUS

#### Social security benefits

10.1 Social security is important not only from the human point of view, but also as a pre-requisite to growth with efficiency. It is therefore an important ingredient of incomes policy. On a long view, it would be evident that unless conditions are created for proper and efficient deployment of labour, productivity cannot go on increasing at the rate necessary for a steady increase in the general standard of life and well-being. However, so long as unemployment means near starvation or unacceptable dependence on others, workers' resistance to rationalisation and efficiency in use of labour will continue. With a measure of social security, adjustments in the labour force would become less difficult. And the greater the security the easier would be the adjustment. Some suggestions in this regard are made in the following paragraphs for further examination.

10.2 There are already some social security schemes established by law in the organised industrial sectors such as the Employees State Insurance Scheme, Employees Provident Fund Scheme, Coal Mines Provident Fund Scheme, Welfare Fund Schemes for coal mines, mica mines and plantation labour, etc. The financial cost is borne jointly in some schemes by the workers and employers or through levy. But the system of retirement pension at present operates mostly in the government and a few companies in the private sector. In other segments of the organised sector, the only provision for the future is a contributory provident fund. In the unorganised sector, there is practically no retirement or old age benefit available. The right to pension after retirement is, in our view, a most reassuring measure of social security. Accordingly, as a long term objective, there is need to work towards extending the pension system to all wage and salary earners. Funds for such a social insurance system could be drawn from contributions paid by the employers and employees in suitable proportions. So far as industrial workers are concerned, the suggestion made by us earlier for a generalised pension fund would be a step in this direction. In due course, the pensionary schemes should cover widows and orphans also as secondary beneficiaries.

10.3 With the growing emphasis on the small scale sector and with about 62 per cent of the working population in the self-employed sector, there is equal need for devising some social security measures for them. Workers in small industries are likely to be relatively unorganised and, therefore, exploitable. In the normal course of economic development, these establishments are likely to grow larger or get aggregated in time, and the workers would become more and more like those of the organised sector. Instead of again going through a long and painful process of adjustment through struggles, it would be better to lay the foundations of a rudimentary social security system as early as possible. One approach can be the possibility of a generalised provident fund, run not by the establishments (which will be too small)



but by organisations established by the State. For example, one could start with a modest contribution of, say, three per cent of the wage by the employer matched with something similar by the State. In the initial stages, workers need not contribute, as their earnings may not permit it, but they should have the option to contribute what they like and they should be given an inducement to do so by proportionate additional contributions from the employer and/or the State. When wages pass beyond a certain level, say 50 per cent above the statutory minimum, some contribution by the workers should become obligatory. Part of this fund could be used for insurance of various types for the benefit of workers, particularly insurance against temporary loss of employment.

10.4 Other low-income workers like self-employed labour in rural and semi-urban areas, artisans and small shopkeepers and even marginal farmers could be similarly helped through a voluntary public provident fund in which contributions (which need be neither obligatory nor of regular frequency) made will be supplemented by the State. This would be the equivalent of negative taxation which our society cannot afford for a long time to come. The financial and other implications of these schemes and the machinery required to implement them would, of course, have to be worked out in detail.

#### Old age pensions

10.5 In many advanced countries social security systems encompass, among others, the aged population not otherwise covered by retirement or occupational pensions. With increased migration to urban areas and the gradual disruption of the joint family system, the social arrangement under which the aged were looked after as a matter of course can now no longer be relied upon. That is why, during the last two decades, many of the State Governments and Union Territories have introduced old age pensions. These are generally granted to destitute persons above the age of 65 or 70 years or more. It is desirable that there is some standardisation of the criteria of eligibility as well as the rates of old age pension. Along with the old, the disabled also should be covered. We suggest that a suitable model scheme may be evolved and accepted in principle for adoption all over the country in due course. Individual States could then introduce or conform to the standard scheme as and when resources permit.

#### Government pensions

10.6 Pensioners as a class are particularly vulnerable to increases in the cost of living. One issue is the correction of past pensions. The time-honoured principle is that the pension rate depends on the rules in force at the time of retirement. This has its merit, but considering the abnormal rise in prices during the last ten years, it is harsh on surviving pensioners. The Central Government has of late granted some ad hoc increases, but these are inadequate. In order that superannuated employees do not suffer economic distress in old age, there is a case for correcting past pensions so as to improve their purchasing power at least in the same proportion in which pay

revisions for serving employees have taken place. But considering the large numbers involved - - there are over a million pensioners of the Central Government alone - - it may not be feasible on financial grounds to adopt the principle of parity at present. However, as an immediate goal, the minimum pension of wage and salary earners should, in our view, in no case be less than the national minimum wage proposed in Chapter III. As a model employer, government should be the pace setter in this direction and take steps towards achieving the minimum wage level in other sectors also. To begin with, the benefit may be confined to those with no other source of income and later extended to all.

10.7 Another issue is the whole level of pension entitlements, particularly of middle and lower level government employees. Apart from justice, fairness or simple humanity, the low pensions of government servants cause undesirable social effects due to the prospect of a very sharp decline in income after retirement. In western countries generally higher rates are allowed but the pension schemes are mostly contributory. We realise that the needs of serving personnel and the resources constraints may leave little scope for improving pension rates on a non-contributory basis. Other ways of enabling the pensioners to augment their post-retirement incomes have therefore to be considered. Two steps have been taken recently in this direction: introduction of the Central Government Employees Insurance Scheme which assures payments upto Rs. 5000 on retirement or death; and the General Provident Fund Deposit-linked Insurance Scheme for a maximum sum of Rs. 10,000. There is also a voluntary Group Insurance Scheme for Army Personnel which enables them to receive benefits ranging from Rs. 25,000 to Rs. 2.52 lakhs by paying a monthly contribution of Rs. 60 for Commissioned Officers and Rs. 25 for others. There are similar schemes operating in the other two Services. The Army scheme, along with the existing pensionary rates, enables most of the beneficiaries to provide themselves with incomes almost equal to the basic pay drawn in service. This is an attractive proposition and we feel it would be worth while to bring the civil scheme somewhat on par with it.

10.8 Of equal significance is the extent of relief provided to pensioners to neutralise the price increases. Central Government pensioners are now allowed dearness relief according to a formula which protects them to a much lesser degree than the dearness allowance of serving personnel. The Third Pay Commission did not favour parity with dearness allowance rates of serving employees, as they thought that family and other responsibilities of pensioners would not be of the same order. This reasoning, however, ignores the sharp reduction in income after retirement and the increased demands of medicare in old age. In the United Kingdom, government has accepted an unqualified obligation to protect the purchasing power of civil service pensions. While we need not go as far as that, minimum justice demands that at least the pensioners should be paid dearness allowance on the same basis as serving employees.

10.9 The recommendations we have made in regard to Central Government pensioners would apply, *mutatis mutandis*, to pensioners of the State Governments, quasi-government organisations, local bodies and private employers also. It is desirable that the pension incomes of these categories of pensioners are regulated in roughly the same manner as those of Central Government pensioners. We also recommend that Government may give serious consideration to the early appointment of a Pension Commission to look into the problems of all types of pensioners including old age pensioners and evolve an equitable pension policy for the future, suitable for adoption in all sectors of employment.

#### **Extra-Departmental employees**

10.10 There is a special category of employees called "Extra-Departmental Employees" in the P & T Department who are employed to man small post offices on a part-time basis. Many of them are said to have other sources of income also, which is not debarred. They receive fixed emoluments which have been revised periodically on an *ad hoc* basis. While there is some ambiguity about their exact status, we feel that, as in the case of pensioners, there is no valid reason why they should not be protected against price rise to the same extent as others working for government. We, therefore, suggest that the standard scheme of dearness allowance which we have proposed should be extended to this category of employees also.

#### **Housing**

10.11 Housing deserves separate treatment since it is a basic human need. Provision of housing is not a statutory requirement in any of the industries except plantations and in mines in certain areas. Elsewhere it is provided as a measure of welfare. In the government sector also, except for the Defence Services and some special employments, provision of housing is not obligatory. Several public undertakings also provide housing facilities to their employees. No reliable statistics are readily available to indicate the extent of housing provided in various industries. In government, the overall degree of satisfaction in respect of housing in Railways, P & T and the General Pool is reported to be of the order of 38 per cent, 6.5 per cent and 26.3 per cent respectively. The problem of housing is acute in the metropolitan cities and other developing cities and towns. In these cities employees have to pay exorbitant rents even for small tenements. The gap between requirement and satisfaction remains very large.

10.12 Housing inadequacy in India has both quantitative and qualitative dimensions. Even quantitatively the acute backlog in housing is on the increase from year to year as the rate of construction has not kept pace with the growth of population. The national shortage of housing has been estimated\* at 3.8 million units in urban areas and 11.8 million units in rural areas. Another estimate\*\* indicates a shortage of 60 million units. The wide difference is apparently related to what constitutes a house. Even on the lower estimate, an investment of Rs.2790 crores per year will

be required for the next 20 years to make up the shortage. The material and other constraints in undertaking such large scale construction have yet to be worked out. The Draft Plan 1978-83 provides for a total investment of Rs.1538 crores as Plan outlay. In addition, investment in private sector housing during the Plan period is estimated at Rs.9,000 crores.

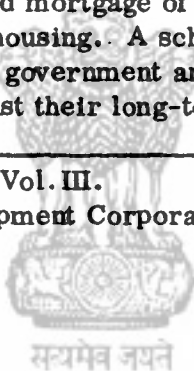
10.13 There is no doubt that multi-pronged strategies are required for giving an impetus to house construction activity all over the country. The emphasis has to be on low cost housing to conform to the needs of middle and lower income groups. This process would be helped by encouraging the use of locally available materials and revision of construction standards of State agencies in accordance with varying local needs and conditions. If the pace of construction is speeded up to meet existing shortages, it will also generate further employment in the building and construction industry which at present provides employment to about 1.8 million persons.

10.14 In the context of incomes policy, housing will always be a major area of concern to employees in view of the considerable proportion of disposable income which is needed for it. In this regard, we suggest that a beginning be made by formulating expanded ownership housing schemes, increased public financing for such schemes, facilities for transfer and mortgage of houses and suitable tax incentives to encourage individuals to invest in housing. A scheme may also be worked out for allotment of houses constructed by government and semi-government bodies to members of Provident Funds against their long-term accumulations.

---

\* Draft Five Year Plan 1978-83, Vol.III.

\*\* By the Housing & Urban Development Corporation.



## Chapter XI

### IMPLEMENTATION

11.1 In outlining the policy frame-work in the preceding Chapters we have made a number of suggestions and recommendations, some specific and others in general terms. Many of the proposals can be implemented by appropriate executive orders; some require new legislation or amendments to existing laws; while for others institutional arrangements will be needed. Wherever it is possible to introduce or secure voluntary compliance, that course should be preferred. In other cases this has to be reinforced by appropriate legal sanctions.

11.2 The practice in other countries which have tried incomes-prices policy, with varying degree of success, has not been uniform. Some countries like Sweden and Australia have adopted elaborate but voluntary consultation procedures; in others like the United Kingdom and Holland, guidelines for wage increases have been given, sometimes with statutory backing. The incomes and price policy in Austria, which has relied almost wholly on the consensus approach, is said to have had a relatively successful record\*. It would, of course, be an extreme view to take that no lessons can be learnt from the experience of other countries. At the same time, it may be equally misleading to expect that attitudes or institutional arrangements evolved in one country can be painlessly or successfully transplanted in a different environment. This is because incomes and prices policies vitally affect practically all sections of society and the particular path chosen by a country in this regard would depend on a variety of factors peculiar to it, be they political, economic or social.

#### Consensus approach

11.3 As stated earlier, the methods of implementation have to be a combination of acceptance through consensus and backing by law. Obviously, the former has to be explored fully before the contours of the latter are determined. We would, therefore, recommend a process of consultation and discussion leading to a broad consensus for the main outlines of the policy. The Austrian experience, referred to above, may have been helped by the existence of a highly centralised trade union structure which is absent in our country. Nevertheless, given our democratic set-up, it is obvious that major interested groups should be involved in the implementation of the policy. After all no such policy, howsoever good on merits, can be effective if it breeds confrontation. Therefore, while some of our recommendations can be implemented straightaway, it would be desirable that the main elements of the policy are fully understood and generally accepted by all, and their voluntary cooperation enlisted on the basis of a broad consensus. This would entail consultations with trade unions, employer's

---

\* O.E.C.D. "Prices & Incomes Policy : the Austrian Experience", 1972.

representatives and State Governments and consumer interests. Ways must also be found to ensure meaningful representation in these discussions to other interested groups which do not ordinarily get represented, such as small farmers, workers in the non-organised sector and the self-employed.

11.4 For such a participative endeavour to be fruitful, however, there should be willingness on the part of government on the one hand to adjust its own policies or schemes in the light of representations and any valid considerations brought up by affected interests. On the other hand, trade unions and other groups should be equally willing to abandon or modify set postures and dogmas in the interest of joint decision making. We expect that in such a process the interaction provided by opportunities for representatives of various interests and of government agencies to meet and discuss major policy issues would in due course create the necessary environment for mutual adjustments and constructive cooperation.

#### Statutory changes

11.5 Even if a broad acceptance of the rationale of the various policy measures can be obtained in the above manner, legislative action would still be required in many cases for implementation. *Prima facie*, the more important measures for which legislative changes may be required are:

- (1) The national minimum wage and its periodical revision till the recommended level of minimum wage is reached, as well as subsequent revisions.
- (2) Introduction of a uniform system of dearness allowance applicable to all sectors of employment.
- (3) Enforcing some of the guidelines for wage settlements.
- (4) Limits on dividends, salaries, perquisites, etc.
- (5) Valuation of perquisites for income-tax purposes on a uniform basis in all sectors.
- (6) Introduction of schemes, when ready, like the Generalised Pension Fund for industrial workers and the Public Provident Fund for the self-employed workers and others.

The above list is, of course, more illustrative than exhaustive. The particular laws affected by our recommendations and the exact nature of the changes required will have to be examined in detail by legal experts.

#### Institutional arrangements

11.6 On the institutional plane, we envisage a permanent non-statutory body,

composed of senior economists and other experts in the fields of labour, management, etc., as the main instrument for implementation of incomes policies. This group may be designated as the Bureau of Incomes and Prices, and may function under the Ministry of Finance. It would recommend guidelines which, on acceptance by government, will regulate all wage settlements. It will also coordinate collection of data and undertake continuous monitoring of price trends.

11.7 We propose that the Bureau should be guided by a coordinating inter-Ministerial group including Secretaries of the Ministries of Finance, Labour, Industry, Planning Commission and possibly Commerce. While the Bureau should enjoy a fair degree of autonomy and non-interference in its normal functioning, the broad policy goals expected to be followed by it would be formulated by a higher policy making Council consisting of 30-40 members giving wide-based representation to concerned interests including trade unions, employers, State Governments, agriculture, and consumers. Consultation of various kinds may be required at several stages. It is not easy to envisage in advance how and in what stage these should be arranged. This is best left to be evolved in the light of experience.

11.8 The proposed Bureau would have the following main functions:

- (a) To undertake a continuous study and review of the relevant data, and to determine each year the productivity norm for the industry or for groups of industries, within which collective bargaining will operate;
- (b) To examine and monitor the behaviour of prices, of commodities as well as raw materials, and their impact on wages and incomes;
- (c) To strengthen data collection capability in consultation with the concerned organisations such as the Central Statistical Organisation, Labour Bureau, Department of Statistics and State Governments;
- (d) To establish working relationship with the Bureau of Industrial Costs and Prices, Bureau of Public Enterprises, Agricultural Prices Commission, etc., with a view to ensuring coordination in the evolution and implementation of policies;
- (e) To develop appropriate information and monitoring systems;
- (f) To review existing policies in the light of changing circumstances and to suggest modifications, where necessary, for approval of the Council.

11.9 An independent appellate body with all-India jurisdiction may also be set up to deal with cases where there has been failure of collective bargaining to reach wage settlements within the guidelines laid down by the Bureau. The decisions of this independent body would be in the nature of awards legally binding on all concerned. We have referred to this aspect in Chapter VI.

11.10 The working of the institutional arrangements we have suggested should itself be subject to periodical review and evaluation. The primary purpose will be to see to what extent the apparatus set up proves effective in attaining the policy objectives. From time to time the approved policies themselves may require modification. Such evaluation is also necessary to counteract the natural tendency of bureaucracy to perpetuate itself, sometimes in the face of evidence of continuing failures.

11.11 We have also recommended the appointment of (a) a National Pay Commission for harmonising the pay structures of the Central and State Government employees; (b) a Pay Committee to examine the pay structure of industrial employees of the Railways, P&T, Defence Production and other departmental undertakings; and (c) a Pension Commission to look into the problems of pensioners and evolve a suitable pension policy for all sectors of employment.

#### Further studies required

11.12 We have indicated several areas in which further studies or follow-up action will be required before firm policies can be formulated. To illustrate, we have advocated the continued use of the All India Consumer Price Index for Industrial Workers to regulate dearness allowance but it is necessary to arrange for a more appropriate index comprising of the essential consumption basket. We have suggested an in-depth study of the impact of indirect taxation on the prices of essential commodities. We have recommended the opening of a special account linked with income tax with a view to controlling high personal incomes. We have indicated possibilities of drawing up certain social security schemes for industrial workers, those in the small-scale sector, as well as for the self-employed such as artisans and small shopkeepers. We have given the bare outlines of employment schemes in the rural sector and of a scheme for small scale farmers for assured price support and marketing of cash crops. We have made certain suggestions in respect of ownership housing schemes for employees. We have proposed that models be drawn up for old age pensions; and so on. For want of time it has not been possible for us either to undertake detailed examination of these questions or to indicate the action required in more concrete terms. For all such areas, further studies will be necessary to work out detailed schemes, their financial and other implications, and the mechanism for implementation before policy decisions can be taken.



## LIST OF TABLES

- Table 1. Structure of work force as on 31st March, 1978.
- Table 2. Share in the disposable income and average disposable income of different decile groups in the household sector -- urban, rural and all-India (1967-68).
- Table 3. Prevailing minimum wages (basic + D. A.) in different industries/sectors.
- Table 4. Minimum emoluments of employees in certain select industries/undertakings in the organised sector -- January, 1978.
- Table 5. Range of minimum wages fixed under the Minimum Wages Act, 1948, by various States/Union Territories for lowest daily paid unskilled male workers as on 31.12.1977.
- Table 6. Statement showing State-wise wages in agriculture.
- Table 7. Statement showing employment and per capita average daily earnings (1971-1972).
- Table 8. Average wage rates of workers and artisans in the unorganised sector - 1976.
- Table 9. Income-tax assesseees among the professional class.
- Table 10. Salaries and perquisites enjoyed by top management levels in the private sector.
- Table 11. Perks - salary relationship.
- Table 12. Emoluments of topmost executives.
- Table 13. Total emoluments per annum - Cabinet Ministers, Judges and other dignitaries.
- Table 14. Erosion in top salaries in government since 1960.
- Table 15. Percentage changes in real value of emoluments of Central Government employees since 1st January, 1973.
- Table 16. Disparities in average monthly earnings in select industries/sectors (1975-76).

- Table 17. Earnings per month at the minimum and maximum of basic pay in different organisations as in June, 1977.
- Table 18. Minimum wages (pay and dearness allowance) of Central and State Government employees.
- Table 19. Emoluments of Class I and Class III employees of L. I. C. as on 1.1.78 at comparative levels of basic pay.
- Table 20. Distribution of workers' population receiving dearness allowance according to basis of payment.
- Table 21. Dearness allowance formulae adopted in certain major industries.
- Table 22. Percentage of employees getting dearness allowance below or above Rs.1.30 per point or its equivalent.
- Table 23. Loss of mandays on account of bonus disputes -- 1965-1975.
- Table 24. Price index numbers since 1961-62.
- Table 25. Wholesale and consumer price indices.
- Table 26. Movement of wholesale price index numbers by major groups (base 1970-71 = 100).
- Table 27. Indices of prices received and prices paid by agriculture and terms of trade (1960-61 = 100).

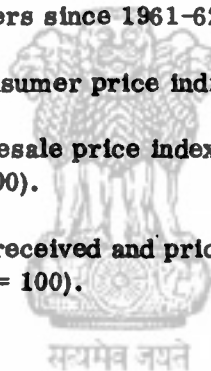


Table 1. STRUCTURE OF WORK FORCE AS ON 31ST MARCH, 1978.

Category	In Million Numbers	Percentage
<b>I. <u>Wage &amp; salary earners:</u></b>	<b><u>100.54</u></b>	<b><u>38.5</u></b>
A. Organised sector	24.83	9.5
(i) Public	15.00	5.7
(ii) Private	9.83	3.8
B. Unorganised sector	75.71	29.0
(i) Agricultural workers	58.34	22.3
(ii) Non-agricultural workers*	11.41	4.4
(iii) Others	5.96	2.3
<b>II. <u>Self-employed:</u></b>	<b><u>160.38</u></b>	<b><u>61.5</u></b>
A. Cultivators	128.13	49.1
B. Non-cultivators*	32.25	12.4
<b><u>Total (I + II)</u></b>	<b><u>260.92</u></b>	<b><u>100.0</u></b>

\*Derived from the 29th round of National Sample Survey.

**Source:** Draft Five Year Plan 1978-83, Volume II.

**Table 2. SHARE IN THE DISPOSABLE INCOME AND AVERAGE DISPOSABLE INCOME OF DIFFERENT DECILE GROUPS IN THE HOUSEHOLD SECTOR - URBAN, RURAL AND ALL INDIA (1967-68)**

@Decile Groups	Share in dispos- able income (%)	Average* dispos- able income (Rs.)	Share in dispos- able income (%)	Average* dispos- able income (Rs.)	Share in dispos- able income (%)	Average* dispos- able income (Rs.)
Bottom 10 per cent	1.97	687.6	1.83	469.3	1.80	495.2
Next 10 per cent	3.20	1109.4	3.05	781.3	3.00	825.7
Next 10 per cent	4.26	1478.5	3.77	964.5	3.71	1020.2
Next 10 per cent	4.89	1696.6	4.55	1164.5	4.64	1275.7
Next 10 per cent	6.11	2116.9	5.68	1453.2	5.78	1588.6
Next 10 per cent	7.32	2537.1	7.07	1808.8	7.04	1933.3
Next 10 per cent	8.86	3071.6	8.79	2249.6	8.97	2463.8
Next 10 per cent	10.85	3761.7	11.93	3053.9	11.81	3243.9
Next 10 per cent	15.62	5413.3	17.27	4420.3	16.76	4605.3
Top 10 per cent	36.92	12800.0	36.06	9230.4	36.49	10027.3
All Classes	100.00	3466.7	100.00	2559.5	100.00	2747.8
Lorenz Co-efficient of concentration	0.4476		0.4625		0.4633	

@ Decile groups have been formed after arranging the sample households in an ascending order of their total income and dividing them into ten classes of equal frequency.

\* Average disposable income refers to the income of the household.

**Source:** N. C. A. E. R.: All India Household Survey of Income, Saving & Consumer Expenditure, 1972.

**Table 3. PREVAILING MINIMUM WAGES (BASIC + D.A.) IN DIFFERENT INDUSTRIES/SECTORS**

Sl. No.	Industry/Sector	Minimum Wages (Rs.)		
		Basic	D. A.	Total
MONTHLY RATES				
1.	Cotton Textile:			
	i) Bombay	282.52	151.78	434.30
	ii) Ahmedabad	282.85	126.15	409.00
	iii) Indore	280.00	111.24	391.24
	iv) Madras	55.00	381.10	436.10
	v) Kanpur	38.00	379.38	417.38
	vi) Calcutta	160.00	202.65	362.65
2.	Jute (West Bengal)	160.00	217.40	377.40
3.	Cement (Gujarat)	260.00	152.10	412.10
4.	Iron & Steel (H. S. L. )	300.00	129.60	429.60
5.	Engineering:			
	i) Praga Tools	180.00	266.00	446.00
	ii) H. M. T.	200.00	295.00	495.00
	iii) Engineers India Ltd.	196.00	99.00	295.00
	iv) B. H. E. L.	260.00	171.10	431.10
	v) Heavy Engg. Corpn.	267.00	135.00	402.00
6.	Sugar:			
	i) A. P.	110.00	214.00	324.00
	ii) Bihar	110.00	209.00	319.00
	iii) Karnataka	110.00	214.00	324.00
	iv) Maharashtra	110.00	231.00	341.00
	v) Tamil Nadu	110.00	234.00	344.00
	vi) U. P.	110.00	209.00	319.00
7.	Coal	286.00*	131.30	417.30
8.	Nationalised Banks	116.00	264.48	380.48
9.	General Insurance Corpn.	125.00	285.00	410.00

\* This includes Rs.26.00 attendance bonus.

Table 3 (Cont d)

Sl. No.	Industry/Sector	Minimum Wages (Rs.)		
		Basic	D. A.	Total
10.	Life Insurance Corpn.	125.00	285.00	410.00
11.	Central Government	198.00	112.60	308.60

DAILY RATES

12.	Tea Plantations:			
	i) Assam	3.88 to 4.46	0.34	4.22 to 4.80
	ii) West Bengal	4.74 to 5.12	0.18	4.92 to 5.30
	iii) Karnataka	5.60	-	5.60
	iv) Kerala	4.75	2.32	7.07
	v) Tamil Nadu	4.88 to 5.02	1.72	6.60 to 6.74
13.	Coffee Plantations:			
	i) Karnataka	5.65	-	5.65
	ii) Kerala	4.75	2.32	7.07
	iii) Tamil Nadu	4.88 to 5.02	-	6.60 to 6.74
14.	Rubber Plantations:			
	i) Karnataka	5.90	-	5.90
	ii) Kerala	3.37	1.96	5.33
	iii) Tamil Nadu	4.65 to 4.74	1.77	6.42 to 6.52



Note: Minimum wages in industries/sectors in S.No.1,2,3,4,5 (v),6,7,12,13 and 14 relate to October, 1977; in the rest, they relate to January, 1978.

Source: Ministry of Labour.

**Table 4. MINIMUM EMOLUMENTS OF EMPLOYEES IN CERTAIN SELECT INDUSTRIES/UNDERTAKING IN THE ORGANISED SECTOR - JANUARY 1978.**

Sl. No.	Establishments	Basic pay and D. A. Rs.	Basic pay, D. A. and cash allowances. Rs.	Basic pay, D. A., Cash allowances and fringe benefits. Rs.
1.	P & T workshop, Bombay	309	350	400
2.	Railway workshop, Bombay	309	350	478
3.	A nationalised Bank at Bombay	380	409	514
4.	A public sector enterprise at Bangalore	424	513	723
5.	Another public sector enterprise at Bangalore	437	549	684
6.	An engineering company at Calcutta.	385	418	473
7.	An engineering company at Faridabad	293	384	463
8.	A textile mill at Ahmedabad	421	455	534

**Notes:** i) Total earnings are exclusive of subsidy on account of housing and children's education, except in case of serial nos. 2 and 4.

ii) Subsidy on account of medical facilities are included except in the case of serial nos. 1 and 8.

**Source:** Data collected by the Study Group.

**Table 5. RANGE OF MINIMUM WAGES FIXED UNDER THE MINIMUM WAGES ACT, 1948, BY VARIOUS STATES/UNION TERRITORIES FOR LOWEST DAILY PAID UNSKILLED MALE WORKERS AS ON 31.12.77.**

Name of State/ Union Territory	Total number of employments covered	Range of Min. Wages fixed (Rs. per day)	
		Min.	Max.
<b><u>Central Government</u></b>	19	3.50	6.96
<b><u>States</u></b>			
1. Andhra Pradesh	28	2.50	6.00
2. Assam	14	1.54	6.00
3. Bihar	26	1.19	6.00
4. Gujarat	23	3.60	7.12
5. Haryana	38	2.00	7.00
6. Himachal Pradesh	17	2.00	5.00
7. Jammu & Kashmir	-	-	-
8. Karnataka	21	2.00	5.60
9. Kerala	30	1.50	13.28
10. Madhya Pradesh	20	1.25	4.00
11. Maharashtra	38	0.97	8.50
12. Manipur	2	2.00	4.00
13. Meghalaya	3	5.00	6.00
14. Nagaland	-	-	-
15. Orissa	13	2.25	5.00
16. Punjab	31	3.15	7.70
17. Rajasthan	27	4.25	6.00
18. Sikkim	-	-	-
19. Tamil Nadu	28	0.62	7.50
20. Tripura	5	1.12	4.00
21. U.P.	38	2.31	6.86
22. West Bengal	16	1.13	7.25
<b><u>Union Territories</u></b>			
1. Andaman & Nicobar	2	4.92	4.92
2. Arunachal Pradesh	-	-	-
3. Chandigarh	22	6.25	7.50
4. Dadar, Nagar Haveli	1	5.50	5.50
5. Delhi	19	4.50	6.75
6. Goa, Daman & Diu	1	4.00	5.00
7. Lakshadweep	-	-	-
8. Pondicherry	1	3.50	8.00

Source: Ministry of Labour



Table 6. STATEMENT SHOWING STATE-WISE WAGES IN AGRICULTURE

Government	Date from which effective	Rate of Wages
1	2	3
Central Government	18th Sept., 1976	Rs. 4.45 to Rs. 6.50 according to areas
Andhra Pradesh	2nd Dec., 1975	Rs. 3.00 to Rs. 5.00 per day according to areas
Assam	October, 1974	Rs. 5.00 to Rs. 6.00 per day or Rs. 4.50 to Rs. 5.50 per day with one meal, according to occupation.
Bihar	July, 1975	Rs. 4.50 to Rs. 5.00 per day plus Nashta (in all districts except East and West Champaran) according to areas.
Gujarat	5th Jan., 1976	Rs. 5.50 per day or Rs. 2,000/- per annum.
Haryana	31st Dec., 1975	Rs. 5.50 per day with meals or Rs. 7.00 per day without meals.
Himachal Pradesh	15th July, 1975	Rs. 4.25 per day.
Jammu & Kashmir	No minimum wages have been fixed so far.	
Karnataka	2nd Oct., 1975	Rs. 3.65 to Rs. 5.60 per day according to class of operation and type of land.
Kerala	15th Sept., 1975	Rs. 6.50 per day for light work and Rs. 8.00 per day for hard work.
Madhya Pradesh	2nd Oct., 1975	Rs. 3.50 to Rs. 4.00 per day according to zones.
Maharashtra	March, 1974	Rs. 3.00 to Rs. 4.50 per day
Manipur	1977	Rs. 6.50 per day
Maghalaya	2nd Sept., 1975	Rs. 4.50 per day with meals or Rs. 5.00 per day without meals.

Table 6. (Continued)

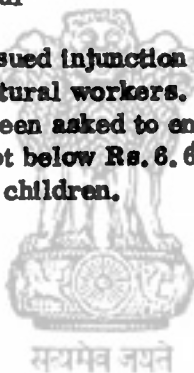
1	2	3
Nagaland	31st Jan., 1978	Rs. 8.00 per day.
Orissa	1st Jan., 1976	Rs. 4.00 per day
Punjab	11th July, 1975	Rs. 4.65 to Rs. 5.65 per day with meals or Rs. 6.70 to Rs. 8.70 per day without meals.
Rajasthan	January, 1975	Rs. 4.25 to Rs. 5.00 according to areas
Sikkim	Minimum Wages Act 1948 not yet extended	
Tamil Nadu	2nd March, 1976	Rs. 3.50 to Rs. 5.00 per day (Adult) Rs. 2.10 to Rs. 3.00 per day (non-adults) according to type of operations.
Tripura	15th Aug., 1975	Rs. 4.00 per day.
Uttar Pradesh	23rd Oct., 1975	Rs. 4.50 to Rs. 6.50 per day according to zones and type of work.
West Bengal*	1st Oct., 1975	<u>Daily Rate</u>
		<u>Basic</u> <u>D. A.</u> <u>Total</u>
		Adult   5.60   2.50   8.10
		Child:   4.00   1.82   5.82
		<u>Monthly Rate</u>
		Adult:   80.60   65.10   145.70
		Child:   39.00   47.25   86.25
Andaman & Nicobar Islands	1st Jan., 1976	Rs. 5.50 per day
Arunachal Pradesh	No agricultural workers.	
Chandigarh	15th July, 1975	Rs. 5.00 to Rs. 7.50 per day with meals or Rs. 6.25 without meals
Dadra & Nagar Haveli	15th April, 1976	Rs. 5.50 per day

Table 6. (Continued)

1	2	3
Delhi	1st Oct. , 1975	Rs. 6.75 per day or Rs. 175.50 per month.
Goa, Daman & Diu	24th November, 1975	Rs. 4.00 to Rs. 5.00 per day according to class of work.
Lakshadweep	No agricultural workers in the territory.	
Mizoram	Committee appointed to advise Government on the fixation of minimum wages in agriculture.	
Pondicherry	1st May, 1976	Rs. 3.50 to Rs. 9.00 per day according to areas and nature of work.

Source: Ministry of Labour

- \* The Calcutta High Court has issued injunction against the notification revising the minimum wages for agricultural workers. However, all Distt. Magistrates and Dy. Commissioners have been asked to ensure, through persuasive methods, payment of minimum wages not below Rs. 6.63 per day in case of adult workers and Rs. 4.74 per day in case of children.



**Table 7. STATEMENT SHOWING EMPLOYMENT AND PER CAPITA AVERAGE  
DAILY EARNINGS (1971 - 1972)**

S. No.	Industry	<u>Small scale sector</u>		<u>Organised sector</u>	
		Employ- ment (000)	Per capita daily earnings (Rs.)	Employ- ment (000)	Per capita daily earnings (Rs.)
1.	Food products	114	3.27	706	6.52
2.	Beverages	4	5.41	185	8.12
3.	Hostelry and readymade garments	64	6.31	1511	9.40
4.	Wood and wood products	74	5.73	98	6.49
5.	Paper products and printing	78	6.68	219	11.90
6.	Leather and leather products	23	7.23	44	8.09
7.	Rubber and rubber products	69	6.60	114	16.20
8.	Chemicals	142	5.20	283	16.93
9.	Non-metallic mineral products	184	4.03	279	7.83
10.	Basic metal industries	102	6.50	351	14.72
11.	Metal products	249	6.15	193	12.26
12.	Machinery and parts	118	7.76	379	13.55
13.	Electric and electronic products	57	7.69	225	14.61
14.	Transport and equipments	73	6.83	306	15.31
15.	Miscellaneous	35	6.40	57	11.47
16.	Repairing and servicing job work	27	6.87	231	11.06
17.	All industries	1412	5.84	5349	11.36

**Sources:** (1) All-India Report on the Census of Small Scale Industrial Units,  
Vol. II, 1977.  
(2) Indian Labour Statistics 1976.

**Table 8. AVERAGE WAGE RATES OF WORKERS AND ARTISANS IN THE UNORGANISED SECTOR - 1976**

S.No.	Industry	Employment (Thousands)	Average wage rate (In Rs.) per day except when period specified
1.	Carpets and other floor coverings	128	Weavers 6.68 to 9.00
2.	Art metalware	107	i) Artisans in utensil making 5.00 to 10.00 ii) Artisans engaged in artware 7.00 to 36.00
3.	Hand printed textiles	200	8.16 to 12.00
4.	Embroideries and shawls	275	Males 7.50 to 15.00 Females - 2.35 to 7.11
5.	Wood work	20	Master craftsmen 16.00 to 22.00 Craftsmen - 12.00 to 16.00 skilled workers 8.00 to 12.00
6.	Gems and jewellery	250	300 to 350 per mensem
7.	Imitation jewellery	60	5.48 to 12.33
8.	Cane, bamboo and willow work	500	75 to 408 per mensem
9.	Potteries, ceramics and terracotta	N.A.	Men - 4.50 to 10.42 Women - 3.00 to 3.80 Children - 2.00
10.	Handmade laces and lace goods	70	2.40 to 4.00
11.	Toys and dolls	N.A.	5.60 to 11.00
12.	Zari and zari goods	200	7.72 to 11.85
13.	Ivory carvings	N.A.	8.00 to 13.00
14.	Agarbatis	60	4.00 to 7.00
15.	Artistic leather and fur items	5	Men - 7.06 to 10.77 Women - 2.55 to 6.53
16.	Tribal crafts	N.A.	4.00 to 6.50
17.	Handlooms	9500	Rs. 65 per mensem

Sources: (1) Ministry of Commerce: Report of the Committee on the Economic Conditions of Artisans and Craftsmen Engaged in Handicrafts sector, Vol.II, 1976.  
(2) Marketing and Management Digest, Vol. IX No.7, October 1977.

Table 9. INCOME-TAX ASSESSEES AMONG THE PROFESSIONAL CLASS

S. No.	Classification of professions	No. of assess-ees	Total		Average income	
			Income assessed	Tax (IT+SC)	Pre-tax	Post-tax
			Rs. (000)	Rs. (000)	Rs.	Rs.
1.	Education and teaching services	396	80,04	7,89	20,212	18,220
2.	Literature, art and journalism	502	1,26,69	21,41	25,237	20,972
3.	Medical & health services	15675	19,33,44	2,77,72	12,334	10,563
4.	Film production and allied services	2092	15,11,97	4,39,98	72,273	51,242
5.	Music, drama and recreational services	946	4,05,52	1,59,32	42,912	26,025
6.	Legal services	3593	4,50,19	67,58	12,530	10,649
7.	Architects, surveyors and engineers	536	4,94,02	2,13,73	92,168	52,293
8.	Accountants, auditors and actuaries	296	95,81	15,23	32,368	27,223
9.	Professions not elsewhere specified	862	4,34,84	2,40,17	50,445	22,583
<u>Total</u>		24898	55,32,52	14,43,03		

Source: All India Income-tax Statistics 1975-76

**Table 10. SALARIES AND PERQUISITES ENJOYED BY TOP  
MANAGEMENT LEVELS IN THE PRIVATE SECTOR**

				(Rupees per annum)
	Salary	Perquisites		Salary & perquisites
Mr. A.	1,16,430	Car	4,500	1,20,930
Mr. B.	72,000	No perquisite as per salary certificate		72,000
Mr. C.	90,000	Reimbursement of servant wages	5,250	
		Reimbursement of gas and electricity bills	1,232	
		Furniture allowance	4,000	
		For using company furniture	3,168	
			<u>13,650</u>	1,03,650
Mr. D.	61,617	Towards residential accommodation	5,400	
		For motor car	4,995	
		Gas & electricity for residential accommodation	<u>1,834</u>	
			12,229	73,846
Mr. E.	3,01,879	Rent free quarter	32,637.85	
		Other benefits	<u>2,598.56</u>	
			35,236.41	3,37,115.41
Mr. F.	2,38,387	Rent free accommodation	27,243.95	
		Other benefits	<u>1,426.11</u>	
			28,670.06	2,67,057.06

Source: Central Board of Direct Taxes.

Table 11. PERKS - SALARY RELATIONSHIP

Salary level (Rs.)	Percentage of fringe benefits to salary (basic/consolidated)	
	<u>From</u>	<u>To</u>
500	40	173
750	26	199
1,000	71	306
1,600	55	263
2,000	52	222
2,500	47	192
3,000	47	173
4,000	65	192
5,000	60	150

Source : H.N. Atthreya: Executive Compensation in India - A Field  
Survey Research Report.

सत्यमेव जयते



Table 12. EMOLUMENTS OF TOPMOST EXECUTIVES

(Rupees per annum)

S. No.	Particulars	Central Govt.	Public Sector	Banks	Private Sector
1.	Salary	42,000 (32,685)	48,000 (35,925)	48,000 (35,925)	90,000 (53,460)
2.	House	14,412	14,400	12,000	30,000
3.	Car	-	10,800	10,800	18,000
4.	Medical	5,000	5,000	5,000	5,000
5.	L.T.C.	630	630	420	7,500
6.	Contributory Provident Fund	-	4,000	4,000	9,000
7.	Commission on profits	-	-	-	45,000 (14,725)
8.	Pension	4,469	-	-	13,500
9.	Gratuity	910	910	3,714	3,750
10.	Other perks	-	-	-	1,600
	<b>Total</b>	67,421 (58,106)	83,740 (71,665)	83,934 (71,859)	2,23,350 (1,56,535)

- Notes: 1. Figures in brackets are post-tax, taking into account standard deductions only. Tax element has not been worked out in respect of housing and other taxable perquisites.
2. The data shown against private sector are as per guidelines of the Company Law Board.
3. For Central Government officers, the value against S.No.2 relates to a typical Type VII residence in New Delhi.

Source: Information collected by Study Group.

**Table 13. TOTAL EMOLUMENTS PER ANNUM - CABINET MINISTERS, JUDGES & OTHER DIGNITARIES ( AS ON 1.1.78 )**

(In Rupees per annum)							
S.No.	Particulars	Cabinet Ministers	Members of Parliament	Service Chiefs	C. & A.G.	Supreme Court	
						Judges	Chief Justice
1.	Pay	27,000 (23,751)	6,000 (6,000)	48,000 (35,925)	48,000 (35,925)	48,000 (35,925)	60,000 (41,658)
2.	Sumptuary allowance	6,000 (5,713)	-	-	-	3,600	6,000 (5,425)
3.	Housing	66,240	8,088	69,564	14,412	56,400	80,520
4.	Furniture	7,080	-	5,880	-	5,520	7,080
5.	Water & electricity	2,400	-	*	-	2,400	2,400
6.	Medical	5,000	5,000	5,000	5,000	5,000	5,000
7.	Conveyance	7,200	-	5,400	-	3,600	3,600
8.	Other allowances	-	6,000**	-	-	-	-
9.	Daily allowance	-	7,140	-	-	-	-
<b>Total</b>		1,20,920 (1,17,384)	32,228 (32,228)	1,33,844 (1,21,769)	67,412 (55,337)	1,24,520 (1,12,445)	1,64,600 (1,45,683)

\* Supplied at concessional rates.

\*\* In lieu of postal, water, electricity and secretarial facilities.

Notes: (1) Figures in brackets are post-tax.

(2) This Table should be regarded as only illustrative. Terminal benefits, travel concessions and some perquisites have not been included for want of adequate data. For the same reason, certain assumptions have been made in quantifying the housing and other facilities.

Source: Data compiled by the Study Group.

Table 14. EROSION IN TOP SALARIES IN GOVERNMENT SINCE 1960

(In Rupees per month)					
	Salary in 1960 (=100)	Salary on 1.1.73 (200)	Salary on 1.1.78 (320)	Equivalent of Col.(2) at Index 320	Equivalent of Col.(3) at Index 320
1	2	3	4	5	6
Joint Secretary	2,250	2,500-2,750 (1,250-1,375)	2,500-2,750 (781-859)	7,200	4,000-4,400
Additional Secretary	2,750	3,000 (1,500)	3,000 (937)	8,800	4,800
Secretary	3,000	3,500 (1,750)	3,500 (1,094)	9,600	5,600
Chief Executives (Public Sector)	3,500	3,500-4,000 (1,750-2,000)	3,500-4,000 (1,094-1,250)	11,200	5,600-6,400

Note : Figures in brackets show the real value at index level 1960=100.

Source : Data compiled by the Study Group.

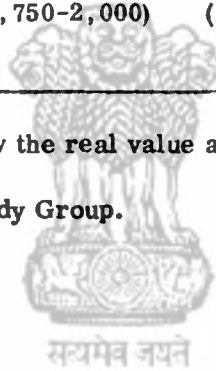


Table 15. PERCENTAGE CHANGES IN REAL VALUE OF EMOLUMENTS OF  
CENTRAL GOVERNMENT EMPLOYEES SINCE 1ST JANUARY 1973.

Sl. No.	Emoluments as on				Emoluments as on		Percentage change	
	1.1.73		1.1.78		1.1.78 after		From	From
	Pre-tax	Post-tax	Pre-tax	Post-tax	deflation for prices at Index 320		Col.2 to Col.6	Col.3 to Col.7
					Pre-tax	Post-tax		
1	2	3	4	5	6	7	8	9
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	%	%
1.	196	196	308	308	192	192	- 2.0	- 2.0
2.	1000	954	1363	1281	852	800	-14.8	-16.1
3.	1500	1365	1863	1691	1164	1057	-22.4	-22.6
4.	2000	1776	2343	2046	1464	1279	-26.8	-28.0
5.	2500	2121	2500	2150	1562	1344	-37.5	-36.6
6.	3000	2406	3000	2454	1875	1534	-37.5	-36.2
7.	3500	2640	3500	2723	2188	1702	-37.5	-35.5
8.	4000	3188	4000	2994	2500	1871	-37.5	-41.3

Source: Data compiled by Study Group.

**Table 16. DISPARITIES IN AVERAGE MONTHLY EARNINGS IN  
SELECT INDUSTRIES/SECTORS (1975-76)**

S.No.	Industry/Sector	Employment (in thousands)	Average monthly earnings (Rs.)
1.	Food products	1045	184
2.	Beverages, tobacco and tobacco products	224	196
3.	Sugar	301	248
4.	Non-metallic mineral products	291	333
5.	Jute, hemp and mesta textiles	263	416
6.	Jute mills	258	421
7.	Metal products	175	434
8.	Cotton textiles*	1071	442
9.	Wool, silk and synthetic fibre textiles	169	443
10.	Paper and paper products, printing and publishing	234	479
11.	Railways	- (1470)	- (527)
12.	Cotton mills*	839	528
13.	Paper mills	77	534
14.	Minerals and metals - coal	- (623)	- (562)
15.	Non-electrical machinery	342	567
16.	Rubber, plastic, petroleum and coal products	137	626
17.	Transport equipment and parts	356(39)	640(909)
18.	Basic metal and alloys	494	677
19.	Chemical and chemical products	357	678
20.	Electrical machinery	261	690
21.	Iron and steel	252(162)	822(831)
22.	Heavy engineering	- (123)	- (823)
23.	Financial services	- ( 01)	- (915)
24.	Banking	- (341)	- (1014)
25.	Insurance	- (81)	- (1214)
26.	Petroleum	- (47)	- (1218)
27.	Transport services	- (42)	- (1555)

\* Relates to all manufacture of cotton textiles including cotton mills; serial No. 8 indicates the position for the industry group as a whole while serial No. 12 is confined to mill sector only.

Note: Figures in brackets relate to public sector only.

Sources: (1) Annual Report on the working of Industrial and Commercial Undertakings of the Central Government 1976-77, Vol. I.

(2) Indian Railways Year Book, 1976-77.

(3) Annual Survey of Industries 1975-76.

Table 17. TOTAL EMOLUMENTS PER MONTH AT THE MINIMUM AND MAXIMUM OF SCALE IN DEFFERENT ORGANISATIONS AS IN JUNE 19 77

(In Rupees)

S. No.	Organisation	Peon		Driver		Clerk		Steno (Lowest Grade)	
		Min	Max	Min	Max	Min	Max	Min	Max
1.	Central Government	337	398	445	572	445	632	478	767
2.	State Government								
	(i) Maharashtra	324	432	393	639	406	728	431	756
	(ii) U.P.	238	310	-	-	286	446	476	913
3.	BEST Undertakings	440	525	470	525	480	915	-	-
4.	L.I.C.	427	799	553	1008	496	1558	-	-
5.	Banks (Nationalised)	396	675	690	839	493	1546	-	-
6.	Engineering	464	865	525	1212	527	2225	-	-
7.	Pharmaceuticals	420	918	665	1082	708	2383	-	-
8.	Chemicals	488	986	630	1 333	730	21 64	-	-
9.	Fabrication & Forging	433	631	463	768	600	1428	-	-
10.	Bombay University	347	451	434	560	478	901	-	-
11.	O.N.G.C. (Dehra Dun)	367	445	-	-	-	-	507	837
12.	B.H.E.L. (Bhopal)	408	498	-	-	468	625	592	682
13.	H.M.T. (Bangalore)	416	528	-	-	451	595	501	696
14.	Hindustan Steel (Ranchi)	418	466	-	-	458	758	458	758
15.	Heavy Eng. Corpn., (Ranchi)	408	438	-	-	493	747	-	-
16.	Triveni Structures, (Naini)	397	472	-	-	477	598	652	845

Note: Serial numbers 1, 2(i), and 3-10 show emoluments at Bombay.  
Units at serial numbers 6-9 relate to the private sector.

Sources: (1) The Employers' Federation of India, Bombay.

(2) H.N. Ray: Paper submitted to the Study Group.

(3) Data compiled by the Study Group.

**Table 18. MINIMUM WAGES (PAY AND DEARNESS ALLOWANCE)  
OF CENTRAL AND STATE GOVERNMENT EMPLOYEES**

S.No.	Government	Minimum pay	D. A.	Total wage (Pay + D. A.)	Date of effect
1.	Assam	190.00	49.00	239.00	1.3.77
2.	Andhra Pradesh	165.00	82.50	247.50	1.10.76
3.	Bihar	155.00	96.00	251.00	1.4.77
4.	Gujarat	196.00	88.70	284.70	1.4.77
5.	Haryana	170.00	89.20	259.20	1.1.77
6.	Himachal Pradesh	170.00	89.20	259.20	1.1.77
7.	Jammu & Kashmir	170.00	45.00	215.00	1.4.77
8.	Karnataka	250.00	Nil	250.00	1.1.77
9.	Kerala	196.00	106.00	302.00	1.9.75
10.	Madhya Pradesh	125.00	126.00	251.00	1.4.77
11.	Maharashtra	175.00	93.00	268.00	1.5.77
12.	Manipur	190.00	40.00	230.00	1.3.77
13.	Meghalaya	190.00	60.00	250.00	1.9.76
14.	Nagaland	190.00	15.00	205.00	1.4.74
15.	Orissa	200.00	49.00	249.00	1.4.75
16.	Punjab	170.00	89.20	259.20	1.1.77
17.	Rajasthan	240.00	14.00	254.00	1.9.76
18.	Tamil Nadu	130.00	117.90	247.90	1.7.77
19.	Tripura	170.00	31.00	201.00	1.4.77
20.	Sikkim	175.00	N.A.	175.00	1.12.75
21.	Uttar Pradesh	165.00	97.40	262.40	1.1.77
22.	West Bengal	135.00) + 15.00)	87.00	237.00	1.4.77
23.	Central Govt.	196.00	112.60	308.60	1.1.78

Source: Pay Research Unit, Deptt. of Expenditure.

**Table 19. EMOLUMENTS OF CLASS I AND CLASS III EMPLOYEES  
OF L.I.C. AS ON 1.1.78 AT COMPARATIVE LEVELS OF  
BASIC PAY**

(Figures in Rupees)					
CLASS III			CLASS I		
Pay	D.A.	Total	Pay	D.A.	Total
530	890	1420	530	750	1280
560	941	1501	570	760	1330
620	1042	1662	610	910	1520
650	1092	1742	650	910	1560
680	1142	1822	690	920	1610
740	1243	1983	730	940	1670
770	1294	2064	770	930	1700
800	1344	2144	810	910	1720
830	1394	2220	850	910	1760

Source : Data compiled by the Study Group.



**Table 20. DISTRIBUTION OF WORKERS' POPULATION  
RECEIVING DEARNESS ALLOWANCE  
ACCORDING TO BASIS OF PAYMENT**

Industry group	Estimated No. of workers getting dearness allowance (000)	Percentage of workers getting dearness allowance according			
		to con- sumer price index numbers	Flat rate	Income groups	Others
<b>I. Manufacturing Industries</b>	20,70	68.7 (40.9)	8.3 (27.3)	21.5 (30.7)	1.5 (1.1)
(a) Textiles	10,82	97.7 (53.5)	1.2 (37.5)	1.1 ( 8.9)	- (0.1)
(b) Engineering	4,91	24.5 (11.0)	2.0 ( 2.1)	68.2 (85.8)	4.3 (1.1)
(c) Others	4,97	49.3 (32.1)	29.8 (21.7)	19.9 (41.6)	1.0 (4.6)
<b>II. Plantations</b>	6,01	* ( 0.3)	99.2 ( 7.9)	0.8 ( 0.2)	* (91.6)
<b>III. Mines</b>	4,02	- (81.5)	* ( 2.7)	100.0 (10.4)	- (5.4)

\* Less than 0.05

**Note:** Figures in parentheses relate to First Occupational Wage Survey.

**Soruce:** C.K. Johri: Incomes Policy and Industrial Relations - Shri Ram Centre for Industrial Relations and Human Resources, 1974, page 121.

Table 21. DEARNESS ALLOWANCE FORMULAE ADOPTED IN  
CERTAIN MAJOR INDUSTRIES

Industry	Nature of Index to which linked with base period	Periodicity of revision	Rate per point (Rs.)
<b>I Cotton Textiles</b>			
1. Ahmedabad	Regional (1960=100)	Monthly	1.22
2. Bangalore	Regional (1935-36=100)	Monthly	0.20
3. Baroda	Regional (Ahmedabad) (1960=100)	Monthly	90% of Ahmeda- bad rate
4. Bombay	Regional (1960=100)	Monthly	1.25
5. Coimbatore	Regional (1935-36=100)	Monthly	0.30
6. Delhi	Regional (1939=100)	Monthly	0.23
7. Indore	Regional (1960=100)	Quarterly	1.08
8. Kanpur	Regional (1960=100)	Monthly	1.23
9. Nagpur	Regional (1960=100)	Monthly	1.29
10. Sholapur	Regional (1960=100)	Monthly	0.91
11. West Bengal	Regional (1960=100)	Quarterly	1.15
<b>II Cement</b>	All India CPI (1960=100)	Quarterly	1.30
<b>III Jute</b>	Regional (1960=100)	Quarterly	1.15
<b>IV Engineering (WB)</b>	Regional (1960=100)	Quarterly	1.15
<b>V Sugar</b>	All-India CPI (1960=100)	Half yearly	1.00
<b>VI Steel</b>	All-India CPI (1960=100)	Quarterly	1.30

Source: Ministry of Labour.

**Table 22. PERCENTAGE OF EMPLOYEES GETTING DEARNESS ALLOWANCE  
BELOW OR ABOVE Rs.1.30 PER POINT OR ITS EQUIVALENT**

		(Employment in 000s)				
S. No.	Sector	Total No. of Employees	No. of Employees being paid D. A. (per point formula or otherwise)		% of Col.4 to Col.3	% of Col.5 to Col.3
			At Rs.1.30 per point or its equivalent or less	At more than Rs.1.30 per point or its equivalent	Col.3	Col.3
1	2	3	4	5	6	7
1.	Central Government	4075	3468	607	85.1	14.9
2.	State Governments and local bodies	7132	6405	727	89.8	10.2
3.	Public sector					
	(i) Banks and Insurance	383	28	355	7.3	92.7
	(ii) Others	1259	1188	71	94.4	5.6
4.	Private sector	5131	5000	131	97.4	2.6

**Note:** Estimates relate to the year 1975.

**Source:** Data collected by the Study Group.

Table 23. LOSS OF MANDAYS ON ACCOUNT OF BONUS DISPUTES - 1965-1975

Year	No. of Mandays lost (in '000)			Percentage of man-days lost on bonus disputes to total mandays lost
	Bonus disputes	Other disputes	Total (all disputes)	
1965	1,035	5,435	6,470	16.0
1966	3,781	10,065	13,846	27.4
1967	1,571	15,577	17,148	9.5
1968	1,479	15,765	17,244	8.6
1969	2,438	16,610	19,048	12.8
1970	6,151	14,412	20,563	30.0
1971	2,729	13,817	16,546	16.5
1972	2,183	18,361	20,544	10.8
1973	1,501	19,125	20,626	7.5
1974	2,113	38,150	40,262	5.3
1975	10,786	11,514	22,300	48.5

Source : Indian Labour Journal

Table 24. PRICE INDEX NUMBERS SINCE 1961-62

Year	Index of Wholesale Prices (All Commodities)		All India CPI for Industrial Workers	
	Base 1952-53=100	Base 1961-62=100	Base 1970-71=100	Base 1960=100
1961-62	125.1	100.0	55.2	N. A.
1962-63	127.9	103.8	57.3	N. A.
1963-64	135.3	110.2	60.9	N. A.
1964-65	152.7	122.3	67.5	N. A.
1965-66	165.0	131.6	72.7	N. A.
1966-67	191.3	149.9	82.8	N. A.
1967-68	212.4	167.3	92.4	N. A.
1968-69	210.2	165.4	91.3	N. A.
1969-70	214.7	171.6	94.8	N. A.
1970-71	226.6	181.1	100.0	186
1971-72	235.7	188.4	105.6	192
1972-73	259.1	207.1	116.2	207
1973-74	318.0	254.2	139.7	250
1974-75	391.6	313.0	174.9	317
1975-76	378.8	302.8	173.0	313
1976-77	388.7	310.7	176.6	301
<u>1976</u>				
April to December			174.9	298
<u>1977</u>				
April to December			186.6	325

Sources: (1) Office of the Economic Adviser, Ministry of Industry.

(2) Economic Survey 1977-78.

Table 25. WHOLESALE AND CONSUMER PRICE INDICES

Month	Wholesale Price Index (1970-71=100)		C.P.I. for Industrial Workers (1960=100)
	1976	1977	1977
January	166.4	178.8	307
February	164.8	182.7	310
March	162.6	182.9	312
April	166.2	184.1	313
May	169.3	187.4	318
June	171.5	188.3	320
July	177.6	188.7	325
August	178.5	188.4	327
September	179.5	188.2	331
October	177.7	185.2	330
November	176.8	184.4	330
December	177.3	184.4	330

Sources: (1) Office of the Economic Adviser, Ministry of Industry.

(2) Economic Survey 1977-78.

**Table 26. MOVEMENT OF WHOLESALE PRICE INDEX NUMBERS BY MAJOR GROUPS**  
**( BASE 1970-71 = 100 )**

S. No.	Commodity groups	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78*
I	Primary Articles	100.9	110.7	141.8	177.5	165.8	167.2	184.4
A	Food Articles	101.1	111.3	136.6	172.1	163.6	155.3	173.9
B	Non-food Articles	98.6	107.5	146.6	163.7	139.8	167.4	179.8
C	Minerals	115.4	124.4	225.4	423.5	440.4	449.4	474.7
II	Fuel, Power Light and Lubricants	105.9	110.1	130.6	198.3	219.2	230.8	233.1
III	Manufactured Products	109.5	121.9	139.5	168.8	171.2	175.2	179.8
	All Commodities	105.6	116.2	139.7	174.9	173.0	176.6	186.2

\* Average for April 1977 - January 1978

**Source:** Office of the Economic Adviser, Ministry of Industry: Monthly Bulletins - Revised Index Numbers of Wholesale Prices.

Table 27. INDICES OF PRICES RECEIVED AND PRICES PAID BY AGRICULTURE AND TERMS OF TRADE (1960-61 = 100)

Year	Agricultural products purchased by non-agriculture			Non-agricultural products purchased by agriculture			Net barter terms of trade	Terms of trade of all agricultural products
	For intermediate consumption	For final consumption	All agricultural products	For intermediate consumption	For final consumption	All non-agricultural products		
1	2	3	4	5	6	7	8	9
1951-52	99.13	93.23	95.44	81.65	96.50	94.76	100.72	116.89
1952-53	74.91	87.00	82.46	85.65	82.85	83.18	99.13	96.28
1953-54	82.66	89.37	86.85	84.46	83.62	83.72	103.74	102.83
1954-55	76.54	80.25	78.86	82.60	81.11	81.28	97.02	95.47
1955-56	70.92	75.57	73.83	82.86	77.24	77.90	94.78	89.10
1956-57	83.17	87.63	85.96	87.57	83.41	83.90	102.46	98.16
1957-58	83.36	90.91	87.99	91.59	89.07	89.37	98.46	96.07
1958-59	83.95	97.94	92.69	94.23	90.77	91.18	101.66	98.37
1959-60	89.62	99.60	95.86	96.98	93.92	94.28	101.68	98.85
1960-61	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1961-62	98.64	101.48	100.41	102.84	99.31	99.72	100.69	97.64
1962-63	96.42	105.28	101.96	107.15	102.33	102.90	99.09	95.16
1963-64	101.10	112.54	108.25	111.86	111.06	111.15	97.39	96.77
1964-65	117.53	132.43	126.84	117.58	116.62	116.73	108.66	107.88
1965-66	132.42	141.64	138.18	125.42	120.08	120.71	114.47	110.17
1966-67	154.77	164.96	161.13	137.06	130.12	130.93	123.07	117.56
1967-68	155.59	192.45	178.62	144.35	142.67	142.87	125.02	123.74
1968-69	158.45	184.69	174.85	143.07	151.35	150.38	116.27	122.21
1969-70	180.52	195.34	189.78	149.96	151.11	150.95	125.72	126.72
1970-71	195.34	200.53	198.38	159.89	155.45	155.97	127.32	124.20
1971-72	189.40	202.92	197.85	165.85	164.63	164.77	120.08	119.29
1972-73	200.72	222.96	214.61	179.99	180.57	180.50	118.90	119.23
1973-74	289.61	275.25	280.64	209.21	204.30	204.87	136.98	134.14
1974-75	324.86	355.16	343.79	268.25	255.17	256.71	133.92	128.16
Compound rate of growth(%)	5.89	5.96	5.94	4.53	4.43	4.45	1.43	1.34

**Source:** R. Thamarajakshi : Role of Price Incentives in Stimulating Agricultural Production in a Developing Economy. See pages 378-9 of "Food Enough or Starvation for Millions". Edited by Douglas Ensminger, F.A.O., 1977.



**MINISTRY OF FINANCE**  
**( Bureau of Public Enterprises)**

**RESOLUTION**

**New Delhi, the 13th October, 1977**

No. 2(66)/77-BPE (GM-I)-Serious distortions have crept into the structure of pay, DA and other compensatory allowances of employees in public and private sector. These distortions have been largely the result of ad hoc approach followed in the past to the problem of periodical revision of emoluments in public enterprises and in organised private industry. Moreover, a major part of the employment in the country is in the rural sector. The incomes of the vast majority of the people in agricultural sector are low and are also liable to serious fluctuations. Any rationalisation of the existing pattern of wages and incomes in different sectors can however be attempted only as an element of Integrated Policy on Wages, Incomes and Prices.

2. The Government of India has, therefore, decided that a comprehensive study on wages, incomes and prices policy should be undertaken immediately. Consequently the Government hereby sets up a Study Group on Wages, Incomes and Prices, composed of the following :-

**Chairman**

1. Shri S. Bhoothalingam, Formerly Secretary,  
Deptt. of Economic Affairs.

**Members**

2. Dr. Dharam Narain, Chairman, Agricultural  
Prices Commission, New Delhi.
3. Shri Arvind Buch, Textile Labour Association,  
Ahmedabad.
4. Shri Hiten Bhaya, Director, Indian Institute  
of Management, Calcutta.
5. Prof. Samuel Paul, Director, Indian Institute  
of Management, Ahmedabad.

**Member-Secretary**

6. Shri G. C. Katoch, Financial Adviser,  
Ministry of Defence, New Delhi.

3. The Study Group will prepare a draft policy on Wages, Incomes and Prices. In framing this draft policy, the Study Group will consider the following issues:-

- (i) What should be the minimum wage and what should be the norms with reference to which the minimum wage should be determined.
- (ii) Whether the minimum wage should be uniform or could be different as between--
  - (a) Agriculture, Industry and Services
  - (b) Organised and Unorganised Sectors
  - (c) Urban and Rural Sectors
  - (d) Between different States/regions
  - (e) Between different employers in the organised sector
- (iii) What should be the relevant criteria for determining the differentials between minimum wage and maximum wage and whether the ratio between minimum-maximum wages should be uniform, or could be different in the sectors referred to in (ii) above.
- (iv) What should be the criteria for determining maximum income and what relationship should exist between maximum income and maximum wage.
- (v) What should be the linkage between wages, and incomes and prices, and to review in this connection the existing arrangements for regulation of dearness allowance in private and public sectors.
- (vi) What fiscal, economic and other policies should be adopted for achieving objectives of the proposed policy on wages, incomes and prices.
- (vii) Whether any legislative changes would be required for implementing the proposed policy on wages, incomes and prices.

4. The Study Group will devise its own procedure. It may call for such information and take such evidence as it may consider necessary. The Government of India trust that the State Governments/Administrations of Union Territories, public and private sector undertakings, organisations of employers and workers

and all other concerned organisations will extend to the Study Group full cooperation and assistance. The Ministries/Departments of Government of India will furnish such information and documents and render such assistance as may be required by the Study Group.

5. The Study Group will submit its report to Government within six months.

Order

Ordered that the Resolution be published in the Gazette of India.

Ordered also that a copy of the Resolution be communicated to the Ministries/Departments of the Government of India, State Governments/Administrations of Union Territories and all others concerned.

G. RAMACHANDRAN, Secy.

**MINISTRY OF FINANCE**  
(Bureau of Public Enterprises)

**RESOLUTION**

New Delhi, the 24th December 1977

No. 2(66)/77-BPE (GM)-I -- The Government of India has set up a Study Group on Wages, Incomes and Prices under the Chairmanship of Shri S. Bhootha - lingam, formerly Secretary Department of Economic Affairs, vide Resolution of even number dated 13th October, 1977. The Government has now decided that Shri A. M. Khusro, Vice-Chancellor, Aligarh Muslim University, Aligarh will also be a member of the above mentioned Study Group.

Order

Ordered that the Resolution be published in the Gazette of India.

Ordered also that a copy of the Resolution be communicated to the Ministries/Departments of the Government of India, State Governments/Administrations of Union Territories and all others concerned.

G. C. BAVEJA, Additional  
Secy, & Director General

LIST OF PARTIES ADDRESSED

**I. Workers'/Employees' Organisations**

Bhartiya Mazdoor Sangh, New Delhi.  
 United Trade Union Congress, Calcutta.  
 \*Hind Mazdoor Panchayat, Bombay.  
 Centre of Indian Trades Union, Calcutta.  
 All-India Trade Union Congress, New Delhi.  
 Indian National Trade Union Congress, New Delhi.  
 United Trades Union Congress, Lenin Sarai, Calcutta.  
 \*National Front of Indian Trade Unions, Calcutta.  
 Hind Mazdoor Sabha, Bombay.  
 Indian National Defence Workers Federation, New Delhi.  
 All India Defence Employees Federation, New Delhi.  
 Federation of National P&T Organisations, New Delhi.  
 Indian National Port & Dock Workers Federation, Cochin.  
 Confederation of Central Govt. Employees & Workers, New Delhi  
 National Federation of P&T Employees, New Delhi.  
 All India Confederation of Central Govt. Officers Association, New Delhi.  
 All India Railwaymen's Federation, New Delhi.  
 \*National Labour Organisation, Ahmedabad.  
 Bank of India Officers Federation, Bombay.  
 All India Confederation of Bank Officers' Organisation, Bombay.  
 All India Insurance Employees Association, Calcutta  
 All-India Life Insurance Employees Federation, Bombay.  
 \*All India Life Insurance Employees Association, Bombay.  
 \*National Organisation of Insurance Workers, Bombay.  
 All India National Life Insurance Employees Federation, Bombay.  
 All India Bank Employees Association, Delhi.  
 Indian National Bank Employees Congress, Madras.

**II. Employers' Organisations**

All India Manufacturers Organisation, Bombay.  
 All India Organisation of Industrial Employers, New Delhi  
 \*Employers Federation of India, Bombay.  
 \*Federation of Indian Chambers of Commerce & Industry, New Delhi.  
 Indian Banks Association, Bombay.  
 \*Associated Chambers of Commerce & Industry of India, New Delhi.

**III. Other Organisations**

\*Bureau of Industrial Costs & Prices, New Delhi.  
 \*National Federation of Cooperative Sugar Factories Ltd., New Delhi.

National Cooperative Union of India, New Delhi.  
 The National Cooperative Housing Federation Ltd., New Delhi.  
 The All India Federation of Cooperative Spinning Mills Ltd., Bombay.  
 National Cooperative Land Development Banks Federation, Bombay.  
 National Agricultural Cooperative Marketing Federation of India,  
 New Delhi.  
 The All India Industrial Cooperative Banks Federation, Bangalore.  
 National Cooperative Dairy Federation of India, New Delhi.  
 \*Standing Conference of Public Enterprises, New Delhi.  
 National Cooperative Consumers Federation Ltd., New Delhi.  
 The All India State Cooperative Banks Federation, Bombay.  
 Indian Farmers Fertilizer Cooperative Ltd., New Delhi.  
 National Heavy Engineering Cooperative Ltd. Pune.  
 Petrofils Cooperative Ltd., New Delhi.  
 National Federation of Urban Cooperative Banks and Credit Societies,  
 New Delhi.  
 All India Handloom Fabrics Marketing Cooperative Society Ltd., Bombay.  
 All India Backward Classes Federation, Delhi.  
 Association of Voluntary Agencies for Rural Development, New Delhi.  
 Bharat Krishak Samaj, New Delhi.  
 Bhartiya Agro-Industries Foundation, Poona.  
 \*Bharatiya Grameen Mahila Sangh, New Delhi.  
 Indian Council for Social Welfare, Bombay.  
 People's Action for Development, India, New Delhi.  
 Institute of Social Studies, New Delhi.  
 National Club of Farmers, New Delhi.  
 Young Farmers Association of India, New Delhi.  
 Rashtriya Kisan Sangh, New Delhi.  
 Young Farmers Association, New Delhi.  
 Vidarbha Industries Association, Nagpur.  
 The National Federation of Industrial Cooperatives Ltd., New Delhi.

### Eminent Economists and others

Shri Tarlok Singh (formerly Member, Planning Commission), New Delhi  
 \*Prof. V. R. Pillai (formerly Member, Pay Commission), Madras.  
 \*Dr. B. K. Madan, Delhi Institute of Public Management, New Delhi.  
 \*Prof. M. L. Dantwala, The Indian Society of Agricultural Economics,  
 Bombay.  
 Prof. A. M. Khusro, Vice-Chancellor, A. M. U., Aligarh.  
 Dr. V. K. R. V. Rao, Institute for Social & Economic Change Bangalore,  
 \*Prof. J. N. Sinha, Institute of Economic Growth, Delhi.  
 \*Dr. L. K. Deshpandey, Reader, Department of Economics Bombay.  
 \*Prof. T. S. Papola, Director, Giri Institute of Economic Development,  
 Lucknow.  
 Prof. Pramod Verma, Indian Institute of Management, Ahmedabad.

Prof. V. S. Vyas, Indian Institute of Management, Ahmedabad.  
 Dr. B. S. Minhas, World Bank, U.S.A.  
 Prof. V. D. Dandekar Director, Gokhale Institute of Economics & Politics, Pune.  
 Prof. N. Rath, Gokhale Institute of Economics & Politics, Pune,  
 Prof. G. S. Bhalla, Head of the Centre for Study of Regional Development, New Delhi.  
 Dr. K. N. Raj, Centre for Development Studies, Trivandrum.  
 Prof. Krishnan, Centre for Development Studies, Trivandrum.  
 \*Dr. C. K. Johri, Director (Research), Shri Ram Centre for Industrial Relations, New Delhi.  
 \*Prof. D. U. Sastri, Institute of Economic Growth, Delhi.  
 Dr. I. S. Gulati, Centre for Development Studies, Trivandrum.  
 \*Shri K. N. Subramanyam, Madras.  
 \*Prof. A. K. Das Gupta, Jawaharlal Nehru University, New Delhi.  
 Dr. C. H. Hanumantha Rao, Director, Institute of Economic Growth, Delhi.  
 Prof. K. A. Naqvi, Department of Economics, Delhi.  
 Prof. Mrinal Datta Chowdhury, Head of the Department of Economics, Delhi.  
 Prof. Bhabatosh Datta, Calcutta.  
 Dr. G. Parthasarathy, Department of Cooperation and Applied Economics, Waltair (A. P).  
 Dr. I. Z. Bhatti, Deputy Director General, National Council of Applied Economic Research, New Delhi.  
 Dr. T. N. Srinivasan, Indian Statistical Institute, New Delhi.  
 Dr. P. R. Brhmananda, Professor of Monetary Economics, Department of Economics, Bombay.  
 Dr. Amiya Kumar Bagchi, Presidency College, Calcutta.  
 Prof. Ramesh M. Bhatt, Director, Centre of Conference Research, Ahmedabad.  
 \*Shri H. N. Ray, Member, Seventh Finance Commission.  
 Shri V. G. Rajadhyaksha, Member, Planning Commission, New Delhi.  
 Dr. S. R. K. Rao, Director, Economy Department, Reserve Bank of India, New Delhi.  
 \*Shri J. R. D. Tata, Bombay.  
 \*Shri Naval Tata, Bombay.

#### Replies received from:

#### ✓ All State Governments

Andhra Pradesh, Bihar, Gujarat,  
 Himachal Pradesh, Karnataka,  
 Rajasthan and West Bengal.

#### VI. Union Territories

Andaman & Nicobar, Arunachal  
 Pradesh, Chandigarh, Dadra and  
 Nagar Haveli and Laccadives and  
 Minicoy Islands.

**VII. All Schedule "A" and Schedule  
"B" Public Sector Undertakings**

Bharat Heavy Plate and Vessels  
Ltd., Vishakapatnam.  
Bokaro Ispath Ltd., Calcutta.  
Cochin Shipyard Ltd., Cochin.  
Electronics Corporation of India  
Ltd., Hyderabad.  
Engineers India Ltd., New Delhi.  
Fertilizer Corporation of India  
Ltd., New Delhi.  
Heavy Engineering Corporation  
Ltd., Ranchi.  
Hindustan Machine Tools Ltd.,  
Bangalore.  
Housing & Urban Development  
Corporation Ltd., New Delhi.  
Hindustan Aeronautics Ltd.,  
Bangalore.  
Indian Airlines, New Delhi.  
Indian Road Construction Corpo-  
ration Ltd., New Delhi.  
International Airports Authority  
of India, Ltd., New Delhi.  
Minerals & Metals Trading Cor-  
poration, New Delhi.  
Steel Authority of India Ltd.,  
New Delhi.  
State Chemicals and Pharmaceuti-  
cals Corporation of India Ltd.,  
New Delhi.  
Hindustan Cables Ltd., Burdwan  
(W. B).



**VIII. All Port Trusts**

Calcutta, Kandla and Madras.

**IX. Financial & Other Insti-  
tutions**

Factory Advice Service and Labour  
Institute, Bombay.  
Industrial Finance Corporation  
of India, New Delhi.  
Industrial Credit & Investment  
Corporation of India Ltd., Bombay.  
Indian Institute of Public Adminis-  
tration, New Delhi.  
National Productivity Council, New-  
Delhi.  
Tata Institute of Social Sciences,  
Bombay.

**X. All Major Universities**

Baroda University.  
 Punjab Agriculture University,  
 Ludhiana.  
 Punjab University, Chandigarh.

**XI. Senior Secretaries/ Addl. Secretaries of the Govt. of India**

Secretary, Ministry of Labour.  
 Secretary, Ministry of Communi-  
 cations.  
 Secretary, Ministry of Energy .  
 Secretary, Deptt. of Rural  
 Development.  
 Secretary, Deptt. of Food.

\* Replies received





## DETAILED LIST OF RECOMMENDATIONS

Minimum Wage

1. A target of national minimum wage of Rs.150 p. m. at 1978 prices, to be achieved in about seven years. (3.20)
2. To begin with a national minimum wage, below which no regular employment will be permitted, to be fixed at Rs. four per day of eight hours unskilled work for an adult, or Rs.100 per month. (3.14, 3.20, 3.22 and 3.23)
3. Revision to be every two years until the target of Rs. 150 p. m. is reached, and thereafter every three years. (3.21)
4. Wages fixed under the Minimum Wages Act to be revised every three years and statutory minimum wages, wherever lower at present, to be brought up to the national minimum level. (3.21 and 3.22)

Rural Sector

5. Introduce concept of a desirable minimum household income target. (3.25 and 4.3)
6. Adopt a planning target of raising the household income to Rs.1800 per annum for the bottom 30% of the working population who are well below the poverty line. (4.4)
7. Above target to be periodically reviewed and adjusted upward; to be achieved within seven years. (4.4)
8. Support policy measures in Draft Plan 1978-83 with short-term policy package aiming at :-
  - a) improvement of return on small holdings e.g., shift in product mix of the small and marginal farmers in favour of cash crops through the instrument of guaranteed contractual prices and provision of effective credit facilities. Start with selected commodities like potatoes, onions, dry chillies. Planning and purchase through local level institutions and distribution through public sector agencies. Supplement income with activities like dairying and poultry. (4.9, 4.10, 4.11 and 4.12)
  - b) increasing employment opportunities -- employment guarantee schemes. (4.16, 4.17 and 4.18)
9. Revitalize district administration and village level institutions. (4.20 and 9.17)

**High Incomes and Top Salaries.**

10. Restraint on dividends. (5.11)
11. Drastic curtailment of items eligible for tax exemption (5.12)
12. Rooting out benami transactions. (5.12)
13. Extension of direct taxes to bring the rural rich into the tax net. (5.12)
14. Enforcement of land ceilings and urban property ceilings where prescribed, (5.14)
15. Support new industrial policy to limit extension of capacities of larger corporate bodies. (5.14)
16. Strict surveillance of incomes of the self-employed. (5.14)
17. Revision of salaries of civil servants at higher levels to be referred to National Pay Commission. (5.24)
18. Perquisites not to exceed 25 per cent of basic pay. (5.29)
19. Non-taxable benefits like "expense accounts" to be reported. (5.29)
20. Uniform valuation of perquisites for tax purposes. (5.30)
21. Limit of total emoluments including salary and commission of Rs. 6000 per month for all Directors and other employees in private sector including private registered companies, for new contracts for next five years. (5.31)
22. Special arrangements for rare or exceptional skills. (5.31)
23. Commission as a mode of remuneration to be phased out within three to five years. (5.32)
24. Introduce suitable system of incentives for exceptional performance, as well as penalties for unsuccessful performance, for executives both in public and private sectors. (5.32)
25. Subject to proposed limits on salaries and perks, give up the cumbersome practice of individual approval of private sector salaries by government. (5.33)
26. Those violating guidelines to be investigated and punished. (5.33)
27. Inter-Ministerial Study Group for integrated manpower planning and suitable emoluments for scarce high-paid skills for both civil and defence sectors in air and sea transportation. (5.35)

28. Scheme for a special account linked with income-tax for controlling high personal incomes. (5.37 and 5.38)
29. Continue efforts to bring black incomes into the tax net. (2.20)

### Wages in the Organised Sector

30. Commend Third Pay Commission's minimum wage to States for adoption within five years. (6.11)
31. Setting up a National Pay Commission for evolving model scales of pay for the entire government sector - Central and States - for common categories. (6.11)
32. Pay Commission to review pay scales every five years and other terms and conditions of service every ten years. (6.12)
33. Collective bargaining to be the main instrument for settling wages in the industrial sector - public and private, subject to policy guidelines. (6.20)
34. Wage settlements every four to five years. (6.30)
35. Wage agreements to have effect from prospective date. (6.38)
36. Units having relatively low wages to come up faster than those who are already at levels above the majority of enterprises. (6.29)
37. Job evaluation wherever practicable to be done on agreed basis. Process to extend to National Job Classification by general consensus. (6.27)
38. Gaps in wages between same or similar skill in different industries in the same region to be narrowed down. (6.27)
39. Shortening of incremental pay scales; eliminating them at higher levels. (6.24)
40. Spread of wages to be 4-5 times the minimum. (6.26)
41. Scarce skills will merit higher differentials, but comparison to be made on basis of total pay packet. (6.28)
42. Wage increases to be linked to productivity growth in industry suitably disaggregated in groups. (6.34 and 6.35)
43. For sectors where productivity cannot be measured e.g. government departments, growth rate of national productivity to be adopted. (6.35)
44. Increase in wages to take place between the mean deviation limits above and below the average rate of industrial growth and production. (6.36)

45. Suitable productivity norms to be recommended by a proposed Bureau of Incomes and Prices. (6.37 and 6.42)
46. Guideline for permissible increase to apply to total wage bill, increase due to incremental scales being set off against it. (6.38)
47. Lower rate of growth for high wage areas. Revised pay scales to be made applicable to fresh entrants. (6.29 and 6.39)
48. High wage areas to be identified for correction by measuring deviation from average monthly earnings at the lowest level in each sector. (6.40)

#### Dearness Allowance

49. Uniform national dearness allowance formula for all employees in Government, private and public sectors, at a flat rate of around Rs.1.30 per point shift in the consumer price index. (7.27 and 7.29)
50. Central and State governments to apply the formula first; in private and public sectors, to be given effect whenever existing agreements expire. (7.33)
51. Quarterly revision of dearness allowance. (7.20)
52. Switch-over to latest series of consumer price index on next wage revision. (7.19)
53. Merger of dearness allowance to be considered on next pay revision, specially where dearness allowance forms disproportionate element of wages. (7.32)
54. Discourage all bilateral settlements outside the national formula. (7.34)

#### Bonus

55. Bonus not to be extended to new areas and to be phased out in unsuitable areas and replaced by other measures of performance. (8.16)
56. Appointment of a Pay Committee to examine the Pay Structure of industrial employees in Railways and other government departmental undertakings. (6.16 and 8.17)
57. Existing system of bonus to continue for the present. (8.18)
58. Create suitable machinery for quick decisions on disputes regarding allocable surpluses. (8.19)
59. Government to initiate talks with trade unions and managements to explore possibility of replacing bonus by long term benefits like retirement pensions, temporary unemployment relief, etc. (8.20 and 8.24)

60. Scheme for creating a generalised pension fund. (8.22)
61. Divert part of allocable surplus in high profit industries towards financing of rural employment schemes. (8.23)

### Prices

62. Price support policies for agricultural products to include:
  - a) assistance for production of cash crops, (9.15)
  - b) facilities for organised marketing including multiple points of procurement; simplify organisation and procedures. (9.16)
63. Reduction of costs of procurement, storage, transportation and distribution of foodgrains through public channels. (9.16)
64. Mass consumption goods - wise network of public distribution system; maintenance of buffer stocks; subsidies for lower income groups; extension of a variety of outlets. Timely imports of essential commodities in short supply. (9.19 to 9.22 and 9.27)
65. Intermediate and capital goods in short supply - use of import mechanism and tariff policy. (9.24, 9.25 and 9.27)
66. Selective operation of the system of dual pricing. (9.26)
67. Review of controls and subsidies. (9.28)
68. Machinery to monitor behaviour of prices and suggest changes. (9.28)
69. Encourage the consumer movement and representation of consumers in appropriate advisory bodies. (9.29)

### Miscellaneous

70. Need to work towards extending the pension system to all wage and salary earners. In due course, pensionary schemes to cover widows and orphans also. (10.2)
71. A generalised pension fund for industrial workers. (8.22 and 10.2)
72. Lay foundations of rudimentary social security schemes for workers in unorganised sector and self-employed through:-
  - a) generalised provident fund for small scale sector, (10.3)
  - b) voluntary public provident fund for low income workers and self-employed persons. (10.4)

73. Old age pensions - standardisation of criteria and rates. (10.5)
74. Minimum pension of wage and salary earners to be not less than the national minimum wage. (10.6)
75. Schemes for augmenting pension income. (10.7)
76. Dearness allowance to be paid to pensioners on the same basis as serving employees. (10.8)
77. Appointment of a Pension Commission. (10.9)
78. Dearness allowance to be extended to Extra-Departmental employees of P & T Department. (10.10)
79. Measures to speed up construction of low cost housing. (10.13)
80. Formulation of expanded ownership housing schemes, increased public financing for such schemes, and other incentives to enable employees to invest in housing. (10.14)
81. Scheme for allotment of houses constructed by government or semi-government bodies to members of provident fund against their accumulations. (10.14)

#### Implementation

82. Consultations to achieve a broad consensus for main policy outlines. (11.3)
83. Legislative action in certain cases. (11.5)
84. Setting up a Bureau of Incomes and Prices; a coordinating inter-Ministerial group; and a policy making Council. (11.6, 11.7 and 11.8)
85. Permanent machinery to monitor behaviour of prices and suggest changes in the price of agricultural products as well as raw materials and manufactured items. (9.28)
86. An independent appellate body with all-India jurisdiction to settle cases where there is failure of collective bargaining on wage revision. (11.9)
87. Periodical evaluation of institutional arrangements. (11.10)

#### Further studies recommended for:-

88. Devising appropriate consumer price indices. (7.17 and 11.12)
89. Examining the impact of indirect taxation on prices of essential commodities. (9.23 and 11.12)

90. Evolving the social security, employment and housing schemes indicated in the report. (4.16, 4.17, 4.18, 8.22, 10.2 to 10.5, 10.13, 10.14 and 11.12)
91. Integrated manpower planning for high-paid skills in air and sea transportation. (5.35)
92. Giving concrete shape to the income-tax linked special account scheme. (5.37 and 5.38)
93. Working out details of the scheme of guaranteed contractual prices for small and marginal farmers. (4.11)

---

Note: Figures in brackets indicate relevant paragraphs of the Report.

